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FINANCIAL TIMES



Investment banking

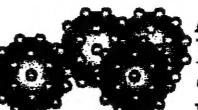
Europeans aim for the major leagues



Koreans in LA

Adjustment pains for a subculture

Book review, Pege 10



AIDS research

High hopes for drug combination therapy

Technology, Page 8

Today's surveys Kazakhstan

Separate sections

Maharashtra

attempt to stop **Ulster violence**

Politicians and church leaders in Northern Ireland made desperate moves last night to resolve the growing crisis between Protestant marchers and growing cruss between Professant marchers and police that has brought the province close to paralysis. Fears of increased violence grew as the Orange Order's annual marching season reaches its peak tonight, after four nights of mayhem in which towns have been blockaded and some Roman Catholic families hounded out of their homes. Page 12; Professants under peace spotlight, Page 7

China airliner project: China has chosen a European consortium, Aero International Regional, as its western partner in a controversial project to build a 100-seaf airliner. Page 12



August 9. This day, evoluing bitter Japanese memories of unfinished hostilities between the two countries in the second world war, is the 51st anniversary of the Soviet Union's invasion of Japa-ness-held Asian territory late in the war. Page 12

£30cm expansion by Hander Ronds and Unipert, vehicle parts and accessories group formerly owned by Rover Group, are to set up three joint component manufacturing companies in the UK. Together with another planned joint venture involving German plastics group Ranter, they will create 400-500 jobs and involve total investment of just over £30cm (£136m). Page 7

Oil groupe in additives the up: Shall and Except, the western werld's largest oil companies, are to pool their petroleum additives businesses in a move that will give the combined unit a quarter of the \$6bn a year international market, Page 13

Bonn looks to lower rates: Germany's 1997 federal budget would create more scope for private initiative in the economy and set conditions for lower interest rates, finance minister Theo Weigel

Fuel rises stir indian RiPs' enger, India's five-week-old United Front government ran into protest at the opening of parliament from Congress party and Bharatiya Janata party MPs over last week's rise in administered fuel prices. Page 6

company executive from Nottinghamathire, central England, appeared in court in Austria after being arrested over an alleged 2250,000 (\$390,000) supermarket blackmail plot.

OECD sats Seoul conditions: South Kores has been told by the Organisation for Economic Co-operation and Development to further liberalise its economy before it will be allowed to join the Paris-based body. Page 4

Dixons, the UK's biggest electrical retailer, provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in profits before tax and exceptionals and a strong start to the current year. Page 17 and Lex

Telekom Malaysis, the former state monopoly, plans to invest M\$5bn (US\$2km) over eight to 10 years to lay the infrastructure for a "multimedia super corridor" to link high-tech groups between Kuala Lumpur and an administrative capital, Putra-jaya, still under construction. Page 13; Swiss power groups in telecoms yenture

UK banks' oversees semings: UK hanks' net oversees carnings fell 27.5bn (311.7bn) in 1994 to \$6.2bn last year because of increased foreign ownership, lower overseas lending and reduced income from overseas interest rate derivatives, Page 7

Beef-cutback measures urged: Urgent measures are needed to cut beef production in the European Union in the wake of the "mad cow" cri-sis, agriculture commissioner Franz Fischler

Spain's unions resist state self-offs; Some 10,000 trade unionists from state controlled compa-nies protested in Madrid against the ambitious provatisation programme unveiled last week by Spain's new centre-right government. Page 2

China leads in contraceptive was: China heads the world use of contraceptives, with \$8 per cent of Chinese married couples using them, according to a study released by a UK charity. Page ?

E STOCK MARKET REDICES E GOLD

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Church leaders in Deutsche builds up 5% stake in rival M Shares within industry rise

THURSDAY JULY 11 1996

Bank mergers loom in Germany

Deutsche Bank, Germany's largest bank, has built up a 5.21 per cent stake in Bayerische Vereinsbank worth some DM500m (\$238m) in a move seen as foreshadowing a wave of merg-ers in German banking. Until now, German banks have

very rarely taken stakes in rivals. But the removal of trade barriers in Suropean Union banking mar-kets and the prospect of the introduction of a single currency within three years have aroused concern about the industry's competitive strengths.

German banking is highly fragmented, with more than 4,000

Yeltsin

looks to

bring new

faces into

By John Thombill in Maccon

government

President Boris Yeltsin, in a halting, nationally talevised address, yesterday called for

"serious corrections" to economic

duction and improve living stan-

numerical and improve from stan-dards in Russia.

In his first appearance for a week, Mr Yeitsin renominated Mr Victor Chernomyrdin as prime minister and said the recent pres-idential elections had been an

important lesson in highlighting
"his own drawbacks and the gov-

it was now essential to give industry "a second wind" to pro-

vide people with work and increase the prosperity of every

But the short and carefully edited television factage of Mr Yehsin did little to allay fears

about the 65-year-old president's health. He still does not appear to

have fully recovered after an

exhausting re-election campaign.
The president, due to be inaugurated on August 8, suggested he would include new "profes-

sionals" in his reconstituted gov-erment, which he must submit to parliament for approvel. "Inno-

headed by Mr Grigory Yavilnaky.

reform and will reassure local

and foreign business executives.
The prime minister's influence in the Kremlin appears to have strengthened greatly since Mr Yeltsin's decision to crush the

hardline Kremlin faction cins-

pered around Mr Alexander Korzhakov, his confident and hody-

terday.

After suppressing stories about

scandal in the run-up to the pres-

idential elections, Russia's

Russian family, he said,

active institutions. Dentsche is Germany's largest bank but holds only a 6 per cent share of domestic retail business. Dentsche said the purchase

was an "attractive investment" and that it did not intend "to wield corporate influence". The wast introduced in the same assurances, however, were widely dishellowed in financial markets, which interpreted the move as a cantious start to a robust consolidation process likely to stretch over several

The news lifted the shares of the entire banking industry on speculation that other banks might follow suit. Vereinshank shares gained 4.4 per cent to DM44.25, while Hypotenk shares

increased 5.5 per cent. Deutsche shares gained less, ending up only I per cent at DM73.20.

Versinsbank is deeply rooted in Bavaria, although it has expanded into other regions and new technologies, and is Germany's largest mortgage lander. For Deutsche the move marks another step in a process of change which began with the acquisition of Morgan Grenfell, the UK merchant bank, in the late 1980s and continued to its wide-ranging internal reorganisation amounced on Toesday.

At the annual meeting in May, Mr Hilmar Kopper, chairman, gave an anabitious definition of Demsche's corporate goals.
"We want to maintain our posi-

tion as Germany and Europe's leading bank, and to be part of the world's top ten; we want to become Europe's leading invest-ment bank and close the gap with the world leaders, we want to retain our prime rating for the whole bank," he said. Mr Stephen Lewis, European

hanking analyst at Union Bank of Switzerland, said: "Deutsche Bank seems to have put its foot in the door. When this process [of consolidation] happens, it wants to be in the right place. It is not making this investment to make a few D-Marks profit."

The federal cartel office said it

would not investigate the purbelieve that an investigation

would be inevitable if Deutsche was to increase its stake mark-

domastic co-operation.

If was unclear yesterday whether Vereinsbank's management was informed about Deut-sche's announcement, "We are going to pursue the strategies that we pursued previously. We regard [Deutsche Bank's share purchase] as a confirmation of our business policy," said Vereinsbank A Bavarian foundation owns a

10 per cent shareholding in Versinsbank and Viag, the utility group, has around 5 per cent.

Rush for big league, Page 11 Lex, Page 12



Heineken abandons Burma venture over human rights vative, competent and fresh peo-ple must enter the government," he said.

By Gordon Cramb in Amsterdam

Political observers suggest Mr. Yeltsin may try to broaden his political support by offering cabi-net posts to representatives of the liberal Yabloko grouping, Heineken of the Netherlands vesterday pulled out of a half-built hiswery venture in Burma and said it would also halt headed by Mr Grigory raymaxy, the radical economist and defeated presidential candidate. However, Mr Yeltsin's decision to reappoint the stolid Mr Chernomyrdin signals the president's commitment to persevere with the broad thrust of economic and will reasons local exports to the country in response to international pressure over human rights,
"Svery billboard in the country

will come down. Out is out," the Amsterdam-based group said yes-

tarday.

Heineken's move follows Tuesday's decision by Carleberg of Denmark in drop gut of a rival project and deals a further blow in Burma's military rulers, who have been seeking inward investment by western multinationals.
It follows the intensification of a US campaign calling for a hoy-cott of products made by companies doing business in Burma, which is now called Myanmar by the milion state law and order

But Mr Yelizin appears keen in counterbalance Mr Chernomyr-din's weight by promoting Mr Alexander Lebed, the former the ruling state law and order restoration council, Storc. Heineken, the leading foreign brand in the US beer market, was army commander, as file more-tary of the security council and entrusting him with wide powers vulnerable to such pressures. Mr Karel Vunnsteen, chief executive, to crack down on law and order. "The struggle against corrup-tion in all scholors of power will be the most important direction of my work," Mr Yelisin said yessaid that since its decision to enter Burma 18 months ago, "public opinion and issues surrounding this market have changed to a degree that could have an adverse effect on our brand and corporate reputation". Heinsken is to sell its indirect 25.5 per cent stake in Myannar Brawary to Fraser and Neave, the itself.

Specially and within the Kremin short currentian in the defendant currentian in the defence that this is the property of the property Singapore brewer of Tiger beer which has long been its main Asian partner. Both brands were

PepsiCo of the US earlier this year agreed to sell its stake in a Burmese cola bottling franchise after losing several US supply contracts, including college campuses. But the soft drinks group is still under pressure because it supplies syrup to the factory for production under licence. Heineken's \$30m project was

further forward than Carlsberg's, which was at the advanced man ning stage. The Dutch brewer said it had been swayed by public opinion and its own trade unions. Ms Aung San Sun Kyi, the Burmese opposition leader whose National League for Democracy's election victory six years ago was annulled by the military, has urged foreign companies and tourists to stay away while Slore retains its grip. Slore-controlled

companies were local partners in each of the baswing ventures. The US hoycott has been led by the Boston-based Franklin Research and Development Corporation, which manages about\$500m in ethical investment senior analyst, depicts florms at "the South Africa of the 1990s" saying trading partners will come under increasing consumer pres-sure. Oil companies are another target for campaigners. California-based Unocal, together with Total of France, is building a pipeline to export offshore natural gas to Thailand. Texaco and Arco are negotiating with Slore

Sun Kyi extle hint. Passe 6

Int. Bond Strates ... Managed Punds21-03

South African president Netson Mandela (right) greeting a mamber of the South African Music Village at a tree-planting London, during a state vielt to

On the second day of his

destroy the legacy of spartheld by improving trade links and boosting investment in his country. He secured a pledge of \$50m (\$93.6m) of additional aid from Mr John Major, the prime minister, primarily for

Banks urged to overhaul data flow for Emu

By Gillian Tett in London

Europe's 15,000 banks and build-ing societies report financial flows were demanded yesterday by the forerunner to a European central bank.

The European Monetary Insti-tute warned that without better

statistics, the central bank would not be able to run effective monetary policy after the switch to European monetary union planned for 1999. However, the UE is refusing to

implement the changes, which will increase the reporting bur-den on financial institutions, arguing that they are too costly

Although other European Union member countries have agreed to make the changes, some complain they are too closely influenced by the Bundesbank, the German central bank. A French banking official said the proposed new system seemed

many, and would "certainly force French banks to make major But German officials insisted that the system would also force changes on German financial

closely based on that in Ger-

EU countries currently use different methods for gathering information on money supply and balance of payments. While this system is acceptable for domestic policy, it will make it impossible for the future European central bank to gather accu-

rate data across the single cur-

rency area.
The EMI is demanding that central banks harmonise the figures, with most countries giving more information. Financial institutions, for example, will have to supply monthly data, rather than quarterly figures used in countries such as France. Banks will also have to provide information on the maturity of assets - data which are not pro-vided at the moment in the UK and France. They will also have to break down financial flows between EU and non-EU catego-

Banking officials admit the Continued on Page 12

Microwaves, lawnmowers, computers. We're always looking for labour-making devices.

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O THE FINANCIAL TIMES LIMITED 1996 No 98,082 LANSON - LETIS - PARIS - PRAISEPRET - STREETING - MADERS - MADERS - LAS ARRESTS - TOKYD - PRAISE KOME

Chechen HQ bombed, Page 8 nore than half-built plant in the Burmoto sunbs Yeltstu, Page 12 Burmose capital Rangoon, which

Warning on tax burden for investors

By Robert Taylor, Employment Editor

High tax and social security hurdens on employers are likely to discourage potential investors and increase unemployment in Europe, Deloitte Touche Tolunatsu International, the global accountancy firm, said yester-day in an analysis of comparative employment costs across 17 European

There is currently "no clear link" between unemployment and wage costs across the continent, with some countries having low unemployment and high wage costs and vice-versa,

Spanish

unions in

threat to

By Tom Burns in Madrid

Spain's new centre-right gov-ernment met their first impor-

tant challenge yesterday when some 10.000 trade union offi-

cials from state-controlled companies gathered in Madrid to

condemn the ambitious privati-

sation programme unveiled

last week.
"Either the government

changes its policy or we will change the policy for it," said

Mr Antonio Gutiérrez. leader of the Workers Commissions

(CCOO) union federation, as

delegates chanted slogans

backing a general strike.

The threat of a government-union confrontation coincided

with encouraging economic

data, however. Registered unemployment fell by 171,999

between April and June, the

biggest second quarter fall

since 1988, to bring the regis-

tered jobless total down to

2.2m. 14.15 per cent of the labour force. Also, while indus-

trial prices went up in May by

0.1 per cent, the year-on-year

rise fell from 1.7 per cent to 1.5.

terday's mass meeting, which was organised by the CCOO

and the UGT General Workers

Union - the two main union

confederations - was a clear

warning to Mr José Maria

Aznar, the prime minister, that

the planned rapid sale of pub-

lic companies will be met by

industrial action.
The disposal of sharehold-

ings worth an estimated

Pta3,000bn (\$23bn) over the

next four years is the corner-

stone of the government's bid

to whittle down the public defi-

Public sector companies

employ more than 200,000 peo-

ple, the vast majority of whom

are union members. Union

leaders are increasingly con-

cerned about what they allege

is a secret government agenda

Under the auspices of a

"social pact" launched by Mr.

Aznar shortly after he took

office in May, unions are have

discussions with employers

and government officials on a

range of issues, including the

social security budget and

labour market regulations. Mr

Gutiérrez said yesterday that

those talks would be broken off

if the government persisted in

Unions fear job cuts in com-

panies that are privatised and

that the government, which

faces an annual bill of

Pta1,000bn in subsidies to loss-

making concerns, could close

The main union concern is

with government initiatives in

areas such as unemployment

and disability pay, and pen-

siderable fraud in the social

security sector - a recent

study alleged that 5 per cent of

total payments were irregular.

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Officials claim there is con-

companies it cannot sell.

its "idealogical offensive" against the public sector.

European monetary union.

The combative mood at yes-

said Ms Ellie Patsalos, the company's international personal tax service manager last night.

But she said that many of the large companies interviewed for the survey had expressed concern about employment costs and "intend to take these costs increasingly into consideration when deciding where to invest

Germany has the highest labour costs for production workers, said the report. It found that the average cost of employing a production worker in Germany was a total of \$40,000 a year, when social security contributions were added to wages.

The country with the lowest total costs was Portugal - at \$10,000 a year. The UK was 11th in the league employer's payroll costs per average gross wage amounting to \$24,000 a

"European Commission figures show between 1960 and 1993 the overall tax rate on employees grew by about 20 per cent. Inevitably this trend puts employers under pressure to increase wages rather than create new johs," said Ms Patsalos.

The report said social security costs were the main burdens for employers but pension schemes, holiday pay, lancy payments and collective

The survey said there was a link between high labour costs and unemployment in Pinland, Denmark, Italy and France, while Iceland and Portugal had low unemployment and low labour costs. But Spain, Greece and Ireland had low labour costs but high loblesa rates.

was low in Austria, Norway and the Netherlands although those countries have high payroll costs to

But it also found unemployment

The survey found wide variations in

agreements were also "significant ally take home. In Finland workers receive 68 per cent of their wages after government deductions but in Spain the figure is 90 per cent. The figure in Germany is 78 per cent compared with 75 per cent in the UK, 80 per cent in France and 90 per cent in

> British, Dutch and Norwegian workers make some of the lowest pen-sion contributions (4.6 per cent) compared with over 10 per cent in most western European countries. The Hidden Costs of Employment Free from Deloitte Touche Tohmatsu, Veru-

lam Point, Station Way, St Albans,

Herts ALI SHE.

have to

macroeconomic programme in four out of eight committees in the chamber of deputies on Tuesday and in another yester-

criteria for European monetary union by 1998 – a year

wages to recoup lost earnings

yield on economy

With the opposition committed to vote against it. Mr Romano Prodi's Olive Tree alliance government may have to make concessions to RC on the level of agreed wage increases, as well as on the amount of money to be

The key test will come today when the budget committee considers the 1997 budget outline in the three-year programme which aims to bring Italy within the convergence later than the Maastricht treaty timetable.

past three years.

The meeting also endorsed another RC request to give a higher profile to fighting job-

The parties agreed that the aim of raising employment by

memployment.

ing concerned the balance between spending cuts and new fiscal measures in the 1997 budget. RC wanted to spending cuts towards the fis-cal side.

state sales The economic policies of

German Länder cast shadow over Kohl's sunny outlook

hancellor Helmut Kohl has been in a notably good mood in recent days - with some justification. Yesterday's cabinet approval of next year's draft federal bud get was a further step towards realising the government's programme for reducing spending, restructuring the welfare state, cutting taxes and making Ger-

many more competitive.

It followed a fortnight in which the Bundestag, the lower house of parliament, approved controversial bills to cut sick pay, make economies in the health service and lower the burden carried by the state pension system as part of gov-ernment plans to cut federal spending by DM25bn (\$16bn) next year.

Efforts to deregulate the economy have also progressed The Bundestag has voted to relax legal protection against dismissal for workers in small enterprises with the aim of making the labour market more flexible. A much delayed bill to liberalise shop opening hours cleared its final parliamentary hurdle last Friday.

However, Mr Kohl and Mr Theo Waigel, his finance minis ter, will need all their political strength for the months ahead of swingeing spending cuts and For progress on those parts of the "programme for more growth and jobs" that are the responsibility of the federal government has been matched by reverses in areas where the states, or Lander, have a deci-

sive sav. The Bonn political calendar bears witness to the strain. The end of the budget cabinet normally signals the start of a two-month summer "silly season" in Bonn. Not so this year. The Bundesrat, the opposition-dominated second chamber of parliament representing the states, meets in special ses sion on July 19 and has already made clear that it will refer the bills just passed by the Bundes-

tag to the conciliation committee of both houses. In the final August week, parliamentarians will return from their summer breaks two weeks early for the conciliation procedures and special ses sions of the Bundestag and Bundesrat before the proper autumn parliamentary sess gets under way on September 10 with a first reading of the

The Bundesrat can only delay the DM440.2bn worth of spending plans in the federal budget. Similarly, because of Growth and jobs programme is progressing but big problems lie in wait, writes Peter Norman

Bonn's budget: making Germany more competitive

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Germany's 1997 federal budget will create greater scope for private initiative in the economy and set conditions for lower interest rates, Mr Theo Waigel, the finance minister, said yesterday, writes Peter Norman.

Presenting his plans for a 2.5 per cent cut in federal spending to DM440.2bn (\$290bn) next year and a reduction in the planned federal deficit to DM56.5bn from DM59.9bn in 1996, the minister said the budget would contribute to growth and employment. He said the draft, approved by the cabinet yesterday, was

"responsible". Its long-term benefits would outweigh any short-term reduction in demand caused by spending cuts. Mr Waigel said prospects for economic recovery were good. The federal statistics office reported yesterday that the pan-German year-on-year inflation rate touched a record low of

1.4 per cent last month, down from 1.7 per cent in May. The cabinet also decided yesterday to freeze ministers' salaries next year. Details released by the finance ministry showed Bonn is aiming for strict control over public spending in the medium term, with outlays set to rise by an average 1 per cent a year in the five years from 1996 to 2000 inclusive, compared with an expected 4 per cent average yearly increase in nominal gross

the health service, sick pay, pensions and employment protection, Mr Kohl should be able to push this legislation through parliament against any Bundesrat objections, provided the coalition's absolute majority in the Bundestag for their final parliamentary approval in the Bundestag on eptember 13.

DM25bn of spending cuts of

However, the Lander have DM56.5bp. far greater powers over the revenue side of the federal budget. Uncertainty also sur-

their own for next year to match the DM25bn of economies and the DM20bn savings to be made by Germany's social insurance funds. Mr Waigel has forecast tax revenues of DM350.3bn in next year's federal budget, which, with other income of DM33.4bn, will leave a federal corrowing requirement of

But the projected tax income anticipates real growth next year of between 2 and 25 per cent and assumes that wide-

will become law. Last week's first reading of the tax bill in the Bundesrat plans. In particular, the pro-

a reduction in the solidarity

surcharge used to finance east-ern Germany and other legisla-

tion to reform company taxes,

produced howls of protest against the finance minister's posal to abolish wealth tax. which provides annual revenues of DM8.5bn for the states, was strongly opposed by the Social Democrat-controlled majority in the second chamber. But states governed by Mr Kohl's Christian Democratic Union also raised objections, with Saxony opposing the bill's provision to delay for one year a planned increase in children's allowances which is due to save the federal government DM3bn in 1997.

The Bundesrat sent the tax bill back to the Bundestag with requests for changes in nearly all its provisions. Protracted with a compromise unlikely before December.

Meanwhile, the Länder have failed to agree a DM25bn aus-terity package of their own after Mr Oskar Lafontaine, the premier of Saarland and leader of the Social Democrat party, mobilised resistance to the plan among SPD-led state govmments.

The apparent demise of this initiative will make it more difficult for Mr Waigel to achieve his goal of a domestic stability pact in which Germany's federal, state and local anthorities would work together to bring the overall government deficit below the Maastricht treaty ceiling of 3 per cent of gross

On the other hand, the states need to economise as much as the federal government, so some savings by the Lander are certain. Mr Waigel said yesterday that the modest 1997 public sector wage settlement would save the states about DM13bn. Moreover, recent votes in the Bundesrat, such that on July 5 liberalising shopping hours, show the SPD cannot always impose party discipline on the state governments controlled by the party.

The government's eventual success with the shopping hours law helps explain Chan-cellor Kohl's confidence that the measures to boost growth and jobs will overcome the legislative hurdles and enter into law. Whether they will be adequate to meet his goal of halving unemployment by the end of the century is far less clear.

Prodi may

By Robert Graham in Rome

Italy's new centre-left government is wooing the Marxist Reconstructed Comnumism party in an attempt to ensure a parliamentary majority for its economic pro-

devoted to job creation. The move to win the support of BC follows the rejection of the government's three-year

day. RC, formed from the hard line of the old Communist party, voted with the opposi-tion on each occasion.

Although the opinion of these committees is purely

consultative, the stance taken by BC has underlined the tential power of blackmail that the party can exert on the policies of a government that relies on it for a majority.

The committee's opinion, and amendments, provide the basis for debate in the full

the centre-left parties in parliament, it was decided to introduce a specific reference in the government's economic policy document backing the introduction of "some compensatory mechanism" to allow

This has been one of the fundamental demands of RC. backed less vociferously by the Party of the Democratic Left, the main partner in the Olive

Until now the government has been reluctant to allow wage contracts to go above the 2.5 per cent inflation target for 1997 and has sought limit, if not exclude, any catching up on lost earning power over the

a full percentage point over the next three years was too modest. Instead, unemployment needed to be treated as an emergency.
RC itself has been pres

for a special fund of at least L16,000bn (\$10hn) to tackle The one area in which RC

demands were directly rebuffed at yesterday's meet-

the way the government has structured its bills to change rounds the states' ability, or willingness, to come up with spread tax changes, including Overhaul urged for EU's VAT system

By Neil Buckley in Brussels

The European Union's value added tax system needs a "complete overhaul" in preparation for European monetary union, the European Commission said yesterday. The call came from Mr Mario

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C The Purancial Times Limited 1996.
Editor: Richard Lambert, Lambert Monti, single market commissioner, as he relaunched his controversial attempts to harmonise treatment of VAT, setting out a programme of phased reforms through to mid-1999 - by which time the euro is due to be in operation. Reform of the VAT system is highly sensitive for both the Commission and member

The European Commission has revised turnover thresholds above which it believes it should have exclusive rights to vet merger cases. It now probes mergers with total turnover of Ecu5bn (\$6.3bn) and EU turpover of Ecu250m, but has proposed lowering these to Ecu2hn and Ecu100m respectively. After consultation with member states it proposes it should vet any case above the lower threshold which would otherwise involve three or more national competition authorities. For other cases, it suggests thresholds of Ren3bn and Ecu150m.

states. Squabbles within the Commission led to the departure late last year of Mr Peter Wilmott, director-general for customs and indirect taxation. Change is likely to be resisted by many member states - making the chances of

getting the required unani-

slim. But Mr Monti said yesterday his programme tried to take account of member states' concerns, and Brussels would use "all its persuasive powers" Any extension of qualified majority voting to fiscal matintergovernmental conference on revising the workings of the EU could also make it easier to get VAT changes approved. "We are all aware the tax field is fraught with difficultles," Mr Monti said, "but the

need is increasingly felt to improve the competitiveness of European firms by simplifying the system, cutting costs, and to give national administrations adequate guarantees (on tax collection) at a time when they are trying to cut deficits." His three main proposals

To make businesses pay VAT on cross-border transacters as a result of the ongoing tions in the country of origin

rather than the country of destination. The Commission says this would cut administrative costs for companies and make it easier to apply VAT rules. To harmonise VAT rates progressively. Mr Monti believes making businesses pay all their VAT in one member state, rather than in several, will make it essential to bring tax rates closer together to avoid businesses in low-taxation states having an unfair advantage. ■ To modernise and standar-

dise the scope of VAT, who would pay and who would be exempt, and rules on tax EUROPEAN NEWS DIGEST

Change in EU truck charges

Mr Neil Kinnock, the European Union's transport commissioner, is proposing to replace standard charges for road freight hauliers – so-called Eurovignettes – with variable

charges according to the age of trucks. Since 1993, members states have had the right to impose charges on heavy trucks for using road networks, a system already adopted by Germany, the Netherlands, Denmark. Belgium and Lixembourg. Mr Kinnock wants to change the system from a flat rate to variable charges according to the amount of damage vehicles cause to the road infrastructure. Vehicles would be classified in three categories, pre-1988;

post-October 1983, when new pollutant standards were imposed on trucks; and post-October 1996. The Commission says that the system would result in an overall average increase in charges of 23 per cent. This is much less than the industry had expected. Mr Kinnock had earlier said he wanted to impose hig increases to reduce traffic

Brussels raids film distributor

European Commission officials have raided the offices of the film distributor United International Pictures following complaints from cinema operators that the company was abusing its dominant market position in the European Union. A series of raids were launched on UIP's offices in London, Paris and Brussels last week to seize documents. Cinema groups have complained for several years that UIP, which distributes films on behalf of Paramount, MCA and MGM, was

imposing restrictive conditions. These included forcing inemas to accept film packages if they wanted to show blockbusters.

A Commission official said yesterday the competition suthorities had come to no conclusion about whether UIP's cehaviour was anti-competitive but had decided that they should obtain the necessary documents to investigate. He

could not say how long the inquiry would last.

IIP said it was "surprised" by the raids, and claimed to have given the Commission "voluminous" information in response to previous inquiries. It denied forcing cinema operators to accept block bookings.

Neil Buc

Kuchma warns on economy



Ukraine's president, Mr Leonid Kuchma, yesterday won parliamentary approval for his prime minister and called for "an emergency regime" to right the economy and ensure that hundreds of thousands of unpaid workers received their wages. Deputies overwhelmingly approved Mr Pavlo Lazarenko (pictured left), a former farm boss who has served in the post since May. Mr Kuchma told deputies that "the situation in the economy is critical. Most people's state of being has been stretched to

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the very limit". He said the government would draw up a list of measures "introducing an emergency regime in the economy without an overall state of emergency in the country". Mr Lazarenko said Ukraine had to reverse the fall in industrial production since independence in 1991, speed up sluggish privatisation and take tough measures to keep the budget deficit within the 4 per cent limit of gross domestic product set by western financial institutions.

In eastern Ukraine, 200,000 coalminers are reported to have joined a strike demanding unpaid wages. Mr Lazarenko said unpaid wages in Ukraine totalled the equivalent of \$1.4bn. "Some industries have a backlog of wages of three to four months," he told deputies. Reuter, Kier

Slovak anger over minority

Slovakia yesterday summoned the Hungarian ambassador to explain his government's support for a conference last week that called for autonomy for ethnic Hungarians living outside

The Slovak government accused Budapest of breaching a bilateral friendship treaty after Hungarian government officials added their signatures to a statement issued by the conference which said that autonomy was essential to preserve the identity of ethnic Hungarians abroad "and for their survival". A foreign ministry spokesman in Budapest said Slovakia's reaction was "exaggerated and unwarranted". Slovakia is home to some 570,000 ethnic Hungarians whose late is a constant source of friction with Hungary, Last year, the countries signed a treaty, later ratified by both sides, that appeared to set aside disagreements on the minority issue, but diplomate said it was being interpreted in different ways by

each government. Vincent Boland, Prague and Kester Eddy, Budapes

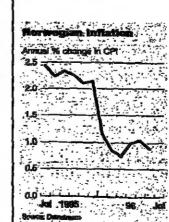
Bonn eases arms export rules

Germany has eased its restrictions on arms exports to help promote co-operation between its industry and European and illied weapons manufacturers. Bonn will rely in future on the export approval procedures of allied governments in cases where a German company supplies components for a joint arms project. Until recently, it has insisted on a prior agreement with the partner government over countries to which arms should not be delivered.

The economics ministry said that German exporters would still have to inform Bonn about the destination of arms ing German components. Germany also reserved the right to raise reservations about any exports to third countries with the government of the arms exporting

ECONOMIC WATCH

Norway's inflation falls again



Norway, despite robust economic growth and incressing employment. The annual rate narrowed to 0.9 per cent for the month ending June 15, down from 1 per cent in mid-May and 2.7 per cent a year ago, according to the state statistics agency. Statistics Norway sato inflation dropped as lower fuel prices beliped to offset increases in rent, food and charter travel prices, Producer price growth also slowed, from 0.6 per cent to 98 0.3 per cent, giving a year-on-year increase of 1.2 per cent. Norway's economy

can seldom have looked healthier; the government forecasts a 1996 budget surplus of NKr24.9bn (\$3.8bn) and the central bank has projected gross domestic product growth this year of 4.75 per cent, amid booming oil and gas revenues and buoyant domestic demand. Unemployment is set to fall to 4.25 per cent and to 4 per cent in 1997. Yet the danger of overheating remains, with the central bank and OECD warning last month of excessive wage growth Greg McIvor, Stockholm

■ Denmark's current account surplus fell to DKrlbn (\$170m)

in April from a revised DKr1.1bn surplus in March. ■ Italian industrial turnover rose 5.3 per cent year-on-year in April, while orders rose 0.3 per cent.

racels film distribung

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Chechen headquarters

Russia yesterday shattered the fragile Chechen ceasefire which helped to secure President Boris Yeltsin's re-election, unilaterally breaking off talks with the separatists and bombarding the headquarters of



Zelimkhan Yandarbiyev, leader of the Chechen fighters: two months ago he was Mr Yeltsin's guest in the Kremlin

The aggressive moves are likely to provoke a new outburst of heavy fighting in the battered region and threaten to discredit Mr Yeltsin less than a week after his resounding vic-tory over the Communists at

the polls. General Vyacheslav Tikhomirov, Russia's military commander in Chechnya, said that as of yesterday Russia had broken off all political contacts with the Chechen separatists and targeted fire on the village where Mr Zelimkhan Yandarbiyev, the leader of the Chechen fighters, is thought to be

Just two months ago Mr Yandarbiyev was Mr Yeltsin's guest in the Kremlin in a highly publicised meeting which brought a delicate truce to the war-torn region and inaugurated a series of more substantive regotiations.

to consolidate his image as a man of peace by ordering the withdrawal of Russian troops from Chechnya. Gen Tikhomirov's announce-

ment coincided with intense Russian air and artillery attacks on at least two Che-chen towns, including the one where Mr Yandarbiyev was believed to be temporarily

Local officials said that dozens of Chechen civilians had already been killed in the fresh eruption of fighting which Russia's reversion to belli-

cose tactics in Chechnya so soon after Mr Yeltsin's election provoked anguished protests from liberal politicians and tournalists who had been the president's most stalwart allies during his campaign to remain

This sense of betrayal was most stridently voiced by Mr Konstantin Borovoi, an archliberal parliamentarian, in a statement drafted for debate in the legislature yesterday.

"If military action in the Chechen republic is not quickly stopped then on August 9 (the president's man-guration day) the people of Russia will receive the right to name Yeltsin not a new presi-Mr Borovoi's draft said.

Although parliament rejected Mr Borovol's harsh comment, it reflected the Russian liberal elite's fear that, with the elections safely behind him, Mr Yeltsin has reverted to the crude policies which had made him one of Russia's most unpopular politicians just six months ago.

However, uncertainty about Mr Yeltsin's health has made it difficult to determine who has taken the decision to jettison the peace process and restart the war in Chechnya.

Some military observers have laid the blame squarely at the feet of Gen Tikhomirov, a hawkish officer who has been opposed to talks from the outset. But others believe the genon the eve of the presidential election Mr Yeltsin sought approval from Moscow.

Russia bombs Srebrenica: 'scene from hell' that drove Bosnia to peace

r Hurem Suljic is a gaunt Bosnian farmer who looks older than his 56 years as he hobbles about his garden in a village outside: Sarajevo, recently shandaned by the same same you but Nato can't." recently abandoned by the

His voice is strong but impassive as he describes surviving Europe's worst atrocity since 1945, a chain of ghastly events that began when Srebrenica fell a year ago today. He remembers the token last-ininute air strike by Nato which failed to stop the Serb armour ploughing its way into the town, one of six UN-pro-tected "safe areas" of Bosnia.

"At first, when I heard Nato's bombers, I thought everything was all right and I went out to do some planting," he recalls. "But then I heard they hadn't bit a thing." That evening, Mr Suljic and his grand-daughter rode on horseback to the UN camp at Potocari, north of the town,

where, he says, up to 30,000 residents were holed up. About 12,000 of the town's able-bodied men had already embarked on a desperate walk to government-held territory. They had to contend with minefields and Serb attacks with anti-aircraft guns. Many went mad or committed sui-

But Mr Suific, as an invalid, took his chances with the women and children at Potocari. This was a mistake: like all the men at the UN base, he was separated from the terrified women and driven away. It now seems that virtually all these male captives dence of the Srebrenica massa-

He says that after two nights' confinement, in which many of his fellow captives were beaten to death, he and dozens of others were taken out in trucks to a field where they were lined up in columns

"I heard machine-gon fire behind me, they were shooting us in the back," he recalls. "A man fell on top of me. He was alive, but then they came round with pistols and started

A survivor recalls an atrocity which today, a year later, is still marked by some haunting unanswered questions

shooting individuals. He was wounded in the neck, bleeding, crying for help. And then he The dimensions of the Sre-brenica massacre have been

pieced together through accounts like that of Mr Sulic. who crawled away and spent five days walking to safety. The Red Cross reckons that more than 6,000 people are missing. An investigation into 12 mass graves, which began this week, will show how many died in cold blood. The Serbs

have claimed that many deaths occurred in combat. Judge Fouad Riad of the international war crimes tribu-nal said after sifting the evilogiam and rolling back the Serbs. For example in autumn 1994 Bosnia had to soften its demands for an end to the UN arms embargo because it feared provoking a Serb attack

cre: "These are truly scenes from hell, written on the dark-

Yet for all its ghastliness, the

fall of Srebrenica - and of nearby Zepa, another Moslem

enclave - began a series of events that broke the UN-im-

posed stalemate and led to the

Dayton peace agreement which divided Bosnia roughly in half between a Serb zone and Croat-

Bosnian officials have never

hidden the fact that before Sre-

hrenica's fall, the existence of

highly vulnerable Moslem

enclaves in the east of the

republic was preventing them from breaking the military

Moslem federation.

est pages of human history."

The inconvenience to the Bosnian side of the enclaves was bluntly noted by General Rasim Delic, the military commander. "Our government had made many ceasefires, many political concessions in order to save Srebrenica and Zepa." But there was, it appears, a limit to the willingness of Sarajevo, Washington and several other capitals to go on making concessions for the enclaves'

brenica, Naser Oric, was astonished to receive orders from his masters to quit the enclave, along with 17 other officers, and never to return.

A Bosnian general, Mustafa Hajrulahovic, defended the decision to withdraw key offi-cers from Srebrenica on imminent and "we had to get ready to evacuate the population and they (the command-ers) needed to get their

As for the US government its low-key stance in the run-up to Srebrenica's fall was in contrast to the diplomatic campaigns it had mounted to stop Serb attacks on two other Moslem enclaves in 1994:

In the words of Mr Michael Williams, former UN spokes man in Bosnia, "the Americans had made a lot of fuss about Gorazde and Bihac, but little about Srebrenica."

"Did the US write off Sre-brenica?" asks Mr Andreas Zumach, a German investigative journalist, who suspects that some US officials knew all about its impending fall.

Despite the efforts of investigators, many of Srebrenica's riddles remain unanswered, including that of who knew what and when. As Ms Madeleine Albright, US ambassador to the UN, said when visiting a goulish mass grave: "I find it very difficult to deal with the fact that scores of people must have known what was going

Reporting by Bruce Clark, Harriet Martin, Laura Silber and



Investigators exhuming remains in Svrake, near Sarajevo, recently of nine Bosnian Moslems executed by Serb forces in

DIPLOMATS UNITED ON KARADZIC REMOVAL

Senior western diplomats agreed in London yesterday on the urgent need to "marginalise" Mr Radovan Karadzic, Bosnian Serb leader, and ensure he is brought to trial by the international war crimes tribunal in The Hague, writes Bruce Clark. The tribunal is expected to issue an international arrest war-rant for both Mr Karadzic and General Ratko Mladic, the Bosnian Sero military commander, today. This could potentially clear the way for a commando operation to arrest them, an idea

which has been mooted in Washington.

The diplomats agreed the recent decision by Mr Karadzic to transfer presidential responsibilities to his deputy, Ms Biljana Playsic, was only a first step towards the Bosnian Serb leader's

withdrawal from real power.

They also agreed the "right place for Mr Karadzic is The Hague," according to a Foreign Office spokesman. The diplomats, from the US, France, Germany, Russia, Italy and the EU, agreed it was desirable all political parties participated in forthcoming Bosnia-wide elections.

However Mr Robert Frowick, the US official overseeing the elections, is understood to have stuck to his position that the SDS, a hardline Serb nationalist party, should be excluded as

Erbakan raises state pay in Turkey by 50%

Mr Necmettin Erbakan, Turkey's new Islamist prime minister, has announced a 50 per cent pay rise for the country's 1.8m state employees, increasing fears that he will pursue populist policies at the risk of damaging the economy.

"This will be paid for through bless-ings of God," said Mr Erbakan, dismissing fears of economic damage. "This government is for villagers, workers, the memployed, the poor,

the retired. We did the most we could to help them. Our aim is to bring

prosperity for the people."
But he told parliament: "Every sort of income from profiteering should be taxed in an active manner, while easing the tax burden on production fac-

Analysts say the wage rise will add \$1.5bn to the treasury's budget deficit this year, bringing it close to \$10bn, double last year's gap. Inflation and interest rates could also rise substan-

the lowest grade of civil servant finances should rise to \$231 a month – an industrial worker in Turkey is normally paid around \$200 a month. Mandarins are to get just under \$2,000. The 50 per cent pay increase makes up for inflation of nearly 40 per cent

in the first half of the year.

Mr Erbakan denied that the rises would be swallowed up by higher inflation, more taxes or price rises at state-owned companies. He said higher incomes would stimulate the

economy, strengthening public

Mr Erbakan's Refah party is the dominant partner in the coalition with the conservative True Path party, whose leader, Mrs Tansu Ciller, has responsibility for economic policy. Mrs Ciller was more cautious than the prime minister yesterday. "Without finding additional resources the pay rises will be taken away" by inflation, she said. The government to finance the higher wage bill.

Annual inflation is over 80 per cent and real yields on the snowballing domestic debt are 50 per cent a year. Inflation and interest charges look certain to grow, swelling the budget deficit fuelling yet more inflation. Mr Deniz Gökçe, an influential financial analyst, said: "I do not anticipate any problems until October. But Erbakan cannot continue with this kind of populism." Mr Gökçe said inflation subsides and hard currency would search for additional resources revenues rise in the summer, giving the government a breathing space.

NEWS: THE AMERICAS

AMERICAN NEWS DIGEST

Thousands flee hurricane Bertha

Hundreds of thousands of residents and tourists began evacuating vulnerable coastal areas from Florida to North Carolina's fragile barrier islands yesterday as hurricane Bertha headed toward the US eastern seaboard.
Florida authorities issued evacuation orders for nearly

500,000 residents from Sebastian Inlet to Amelia Island. The storm spent Tuesday in the open Atlantic after a deadly trek through the eastern Caribbean that killed at least three people in Puerto Rico.

Bertha was downgraded to a category 2 hurricane on

Tuesday as maximum winds dropped from 115 mph to 105 mph. But even if the storm turns out to sea it could still cause high waves and erosion on the coast, US forecasters warned. At Cape Canaveral in central Florida, officials at Kennedy space centre hurried to pull the space shuttle Atlantis off its launchpad as a precaution. AP, Miami and Reuter, Nassau

Netanyahu foresees drop in aid

Mr Benjamin Netanyahu, the Israeli prime minister, promised the US Congress yesterday that he would begin reducing his nation's dependence on US economic aid. The US provides some \$3bn in economic and military aid to Israel each year,

more than to any other country.

The promise, part of a wide-ranging speech to a joint meeting of Congress, won a standing ovation from lawmakers and Clinton administration officials who have been making their own promises of US government cutbacks.
Elsewhere in his speech Mr Netanyahu said his country was

ready to begin negotiations with the Palestinians on a final settlement. But on Jernsalem, which Arabs aspire to make the capital of a Palestinian state, he reiterated his tough line. "There will never be such a redivision of Jerusalem, never," be said to widespread applause. Reuter, Washington

Atlanta taxi fares up by 40%

Atlanta taxi drivers raised fares by as much as 40 per cent yesterday under city-approved legislation that allows them to charge higher rates during the Olympic Games.

The fare for one person from the airport to downtown increased from \$18 to \$22 under legislation approved by the city council. The flat rate for a taxi ride within the downtown district rose from \$5 to \$7 - a 40 per cent increase. The surcharge for additional passengers has been doubled.
The fare increases will remain in effect until August 30, more than three weeks after the Olympic Games end on August 4. Olympics officials have said they oppose price-gouging. A Georgia law limits the rates hoteliers can

charge during the Games. Cuban hijacker 'was dismissed'

A Cuban who hijacked an aircraft to the US naval base at A Cuntanamo Bay in southeast Cuba had been sacked from his job as an interior ministry officer on suspicion of theft, Cuban officials said yesterday. They said said Mr José Fernandez Pupo was a former

lieutenant colonel in the interior ministry. He was dismissed in February on suspicion he had stolen about \$50 worth of in reordary on suspicion he man to be used for food supplies. Mr Fernandez Pupo forced a small plane on a domestic flight in eastern Cuba to land at the US base on Sunday and then

asked for political asylum in the US. US officials have said he is in the custody of the US Immigration and Naturalisation Service, and have not yet said how the case will be handled.

President seals pact with Mexico's hardline governors, write Leslie Crawford and Daniel Dombey

Isolated Zedillo trades policy for friends

or Mr Roberto Madrazo, the embattled governor of Tabasco, a year-long nightmare ended this week when state prosecutors absolved him of responsibility for the massive undeclared funds employed by Mexico's ruling party to secure his election victory in 1994.

In reality, Mr Madrazo's reprieve came not with the prosecutor's ver-dict, but with a single presidential embrace two weeks ago, on the airport tarmac of Villahermosa, the capital of Tabasco and Mr Madrazo's home town.

In the cryptic language of Mexican politics, President Ernesto Zedillo's visit to Tabesco, during an official inquiry into Mr Madrazo's \$73m election war chest and alleged ties to money launderers, was interpreted as more than just a show of support for the controversial governor.

Most observers saw the warm embrace as confirmation that Mr Zedillo had sealed a pact with Mexico's hardline governors to win support for his flagging presi-

dency.

After 19 months in office, Mr Zedillo's relationship with the Institutional Revolutionary Party (PRI) is still fraught with tensions. His orthodox economic policies are regarded as an electoral liability, while his efforts to modernise the PRI are viewed with

suspicion. Mr Zedillo's isolation had begun to affect his ability to govern Mexico. No other president has been the target of so many rumours of military coups, palace conspiracies and plots to force

Mexico's state governors - powerful overlords, whose fathers and grandfathers were often governors before



last for the president's unstable ship. To get them on board, however, Mr Zedillo may have been forced to give up much of his reformist agenda. "I think we will see the gradual abandonment of national talks on electoral and political reforms," says Mr Federico Estevez, director of the social sciences department at Itam university. "Instead, President Zedillo will probably begin to give prominence to law and order issues, and the importance of maintaining social sta-

The opposition Revolutionary Democratic Party (PRD) said Mr Madrazo's them - represented the obvious bal- acquittal in Tabasco raised questions

Mexico's monthly inflation dropped to 1.6 per cent in June, its lowest level in 18 months, in a sign that the central bank's tight monetary policy is beginning to tame the price explo-sion provoked by last year's deprecia-tion of the peso, Leslie Crawford reports from Mexico City. Consumer prices rose 15.3 per cent in the first six months of the year, against 32.9 per cent in the first half

Most private forecasters expect inflation for the full year to end at between 25 and 30 per cent, compared

with 52 per cent in 1995. Other figures released by the finance ministry and central bank suggest that economic recovery is under way. Industrial production has shown a

consistent improvement since February, with the exception of the construction industry which remains in the doldrums because of the lack of big government projects and the high cost of bank finance. Consumer spending has begun to show a timid

about President Zedillo's commitment to free and fair elections. "We expected the verdict," Mr Andrés Manuel Lopez Obrador, the defeated PRD candidate in Tabasco, said. "The state prosecutor, after all, owes his job to Mr Madrazo."

Another governor who fought for his political life - but lost - was Mr Rubén Figueroa of Guerrero, on Mexico's Pacific coast. Mr Figueroa was forced to resign in March for attempting to cover up a massacre of unarmed peasants by his state police. Since Mr Figueroa's departure, the state of Guerrero has been convulsed by the appearance of a new guertilla ment's chief "alchemist", conjuring did we get? All-out war."

recovery, though investment outlays are still below 1995 levels.

Mr Guillermo Ortiz, finance minister, estimates gross domestic product grew by 5 per cent in the second quarter of 1996, at which point the economy would have recovered about half of the production lost during last year's deep recession. The finance ministry has forecast the economy will grow by 3 per cent in 1996, against a 7 per cent contraction in

Exports in May reached a record \$8.04bn, almost 20 per cent higher than a year ago. Mexican industry has also begun to generate a greater demand for imports, which are up by 18 per cent compared with recession-

hit 1995. The trade balance remains healthy, totalling \$3.34bn in the first five months of the year. The accomulation of net international reserves, however, remains painfully slow, \$1.65bn in net reserves at the end of last week.

further to undermine the authority of the president. Yet another governor who has remained unshaken by the president's reformist agenda is Mr Manuel Bart-

lett, who heads the central state of Mr Bartlett is the very model of a Mexican politician. He has served the PRI for 30 of his 60 years and been rewarded with top ministerial posts in two administrations before returning to his home state as governor in 1993. As Mexico's interior minister in the

1980s, Mr Bartlett was the govern-

the presidency, by the slimmest of margins, for Mr Carlos Salinas in

But the time-honoured methods which have kept the PRI in power for 67 years landed Mr Bartlett in trouble earlier this year. The conservative National Action Party, emboldened by popular anger at Mexico's economic crisis, accused the governor of votebuying and election-rigging during Puebla's municipal elections. After much wrangling, some of the more questionable results were overturned. Mr Bartlett shrugs off the defeat as "opposition blackmail" and defends his vote-winning tactics. "It is absolutely legitimate to give

last day before an election, so that people can see the government is committed to the peasantry and is giving them their due," Mr Bartlett says. "This is not anti-democratic. All

out [farm subsidy] cheques up to the

parties do the same in Mexico; even the governors of opposition parties, they behave in exactly the same The only item in Mr Zedillo's

agenda which sparks off Mr Bartlett's enthusiasm is, not surprisingly, a presidential initiative to devolve more power to state governments.

More political reform? Mr Bartlett
does not see the sense in it. "We [the PRI] gave away seats in Congress to the opposition long before they were strong enough to win on their own;

we invented the system of proportional representation; we introduced state financing for all political parties," he says.
"All of this was done courtesy of the PRL And instead of thanks, what

Powell rules himself out of full-time role for Dole

By Jurek Martin in Washington

Retired General Colin Powell, still seen by some as a potential saviour for the Republican party, yesterday ruled out full-time campaigning on behalf of Mr Bob Dole, the party's presumed presidential candidate. In a breakfast TV interview, he denied his support for Mr Dole was "tepid", saying: "I will vote for him, I will support him and I will convey, as I go round the country, the reasons that I think he is worthy of that sup-

DOLL, But, he went on, "the specific question that's caused all the speculation is am I going to become a full-time

campaigner, on the trail, in the plane. and the answer to that is no, that's not part of my life at this time and that's not what I intend to do". Gen Powell said he was "willing to

consider" a speaking role at the Republican national convention in San Diego, California, in the middle of next month, as has been suggested recently by Mr Newt Gingrich, the House Speaker. But he emphasised that nothing had yet been decided. He also obliquely criticised Mr Dole for not attending the annual meeting of the National Association for the Advancement of Coloured People (NAACP), which is taking place this week in Charlotte, North Carolina,

SECTION - Manday Performance 1992 5 SEC.A - Day (India) Final Ltd.

yesterday by President Bill Clinton.
"I wish he [Mr Dole] didn't have a scheduling conflict," said Gen Powell, who is black, citing the reason given by the Dole campaign for not going to Charlotte. "I think it would have been useful for him to present his views to the NAACP."

The former chairman of the joint chiefs of staff has been in the public eye this week with a series of interviews on publication of the paperback edition of his best-selling memoirs. In one broadcast on Tuesday with Mr David Dinkins, the ex-mayor of

and which was to be addressed later not believe in some of the now "stan- elected, the 1994 ban on the sale dard postures" on the party he only of certain types of assault weapons . formally joined last year. "The Republican party is broader

you might think from watching the headlines," he told Mr Dinkins. "What I think Senator Dole will have to do is make sure those inclusive, moderate, porting him."

Mr Dole now seems to be acting on this advice. Having already risked the wrath of social and religious conservatives by seeking to incorporate a declaration of "tolerance" on abortion New York City, he was critical of the Republican right wing, saying he did in the party platform, on Tuesday he pocket" of the National Rifle Assa went back on a promise to repeal, if tion, the principal pro-gun lobby.

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"We've moved beyond the debate over banning assault weapons," he and deeper and more inclusive than told a Virginia rally. "Instead we ought to be emphasising what works," such as improved computerised checks on would-be gun buyers. But Mr Dole left to his press spokescentrist Republicans are in there supman the task of making explicit that repeal of the assault weapons ban was "no longer on the agenda". That brought prompt criticism from the Clinton campaign that Mr Dole was refusing to "come clean" and therefore might still be "squarely in the pocket" of the National Rifle Associa-

Former foes unite in GM bus venture

By Yaroslav Trofimov in Tel Aviv

In an unprecedented business venture between two formerly hostile nations. Jordan's Elba company and Universal Trucks Israel (UTI) have agreed to co-operate in assembling and marketing a 24-seat General Motors minibus

Under the deal, UTI, the sole dealership for General Motors vans and trucks in Israel, will them to Elba's factory in Amman, where the buses' body and furnishings will be added. The finished minibuses will then be returned to Israel for

Elba aiready builds bodies for buses based on chassis by Mercedes-Benz.

"As far as I know, this is the first such co-operative effort in the history of Arab-Israeli relations," said UTI's managing director, Mr Doron Lior.

He added that the first prototype bus, which would probably be sold under the name "GMC King", was completed and ready for marketing. He expected the sales - to be launched in a few months - to reach \$9m for the first year.

"We are primarily targeting commercial companies which would use these buses for tourists," Mr Lior said. The mini-buses are expected to sell for \$90,000.

All the sales of the new venture will have to be inside Israel, as UTI's agreement with General Motors bars the com-pany from re-exporting GM

According to Mr Lior, while no actual work on the minibuses will be performed in Israel in the coming months, at a later stage UTI plans to establish an Israel-based facil-ity to equip the GMC-Elba vehicles with its own seats and air conditioners.

The minibus venture has been made possible by the October 1995 Jordanian-Israeli trade agreement, which removed obstacles to trade.

OECD sets hurdle for S Korea

Seoul must free up economy to qualify for entry

in London and John Burton in Secur

The Organisation for Economic Co-operation and Development has told South Korea it needs to commit itself to further liberalisation of its economy if its efforts to join the Paris-based body are to succeed

OECD committees vetting Korea's application have concluded that, despite recent economic reforms, it still does not meet the organisation's codes on capital movements and inward investment.
Officials close to the mem-

ership negotiations said Seoul had been given until September to show how it planned to comply with the requirements. Separately, a dispute has erupted over demands by a growing number of European governments that Seoul give up its attempts to retain indefinitely its developing country status in negotiations on agricultural trade.

However, Korea - with sup-

Ericsson, the Swedish

telecommunications company, is to supply Turkey's Turkcell

with \$100m worth of switching

gear and radio base stations

this year to meet rapidly ris-

The Turkcell network is the

largest of two operating in

Turkey under a revenue-sharing agreement with the

state-owned Türk Telekom

Mr Ersin Pamuksuzier, dep-

uty general manager of Erics-son's Turkish operation, said

"the new investments will

allow Turkcell to increase

its capacity to serve 700,000

subscribers by the end of 1996". Ericsson holds a 15 per

Demand for mobile GSM

telephones in Turkey has

grown rapidly since the gov-

ernment licensed the two net-

cent stake in Turkcell.

ing demand.

members - is bitterly resisting. A senior official in Seoul said agriculture was politically so sensitive that his government might withdraw its application to join the OECD rather than renounce its developing coun-

try status.

To accept OECD conditions on this issue is out of the question because it would open a Pandora's box of political problems for the government," he said. "If we made any concessions now, it would probably destroy the already fragile domestic consensus for joining

The Korean government has recently expressed confidence that its negotiations have made enough progress for its application to be approved by the OECD's governing council in September, paving the way for membership by the end of the year. However, an official of one OECD government said Seoul was being too optimistic, though he still believed the remaining obstacles could be

Pamuksuzler said "we are get-ting about 35,000-10,000 new

subscribers per month for our

Turkcell already has 410,000

subscribers and needs to

increase capacity to accommo-

date the growing number of

Turkey's serious economic dif-ficulties and political uncer-tainty following last week's

appointment of Mr Necmettin

Erbakan as the country's first

is a huge number of self-em-

ployed people and small com-panies that need mobiles and

this trend is likely to con-

Turkcell has almost cor-

nered the GSM market after

the government withdrew the

licence of its competitor Tel-

sim last year, alleging that it was in breach of its

Mr Pamuksuzier said "there

Islamic prime minister

Demand is rising in spite of

mobile phone network

network."

port from some other OECD cleared in the next few "Joining the OECD is proving more difficult in objective terms than the Koreans had thought," said another official. "Giving a simple statement of political commitment will not

e enough to ensure member

In an effort to boost its application, Korea told OECD members at a meeting last week that it was ready to abolish by the year 2000 its restrictions on foreign portfolio investment and to ease curbs on foreign

banks and securities firms.

However, the OECD committees are not satisfied that Korea has done enough to remove restrictions on trade credits and bond transactions, and are also pressing it to lower further barriers to takeovers by foreign companies. Although Seoul might not be required to meet all the OECD rules on capital movements

immediately, members are seeking a firmer timetable for its planned compliance than

cipal shareholders was locked in a bitter political fend with

Mrs Tansu Ciller, then prime

The new Islamist govern-

ment has announced that it

will renew Telsim's licence.

Analysta expect Telsim will

upgrade its network and win

back subscribers lost to Turk-

that the new government will accelerate stalled plans to pri-vatise the mobile network or

sell new licences.

Ericsson executives hope

Mrs Ciller had hoped to

raise \$500m by selling 35-year licences until the supreme

court declared the legislation

Her government sent a new draft law to parliament, but

Turkey's recent political

soon go ahead with plans

invest over \$100m to

new agriculture negotiations in the World Trade Organisation Korea has so far been willing to give. Some negotiators believe its

Korea's refusal to give any commitment is supported by Australia, Canada and New Zealand - normally passionate critics of agricultural protectionism - and by Japan.

unwilling to rely on market-Korea has already told the Meanwhile, Belgium, France, Germany, Italy, the Nether-lands, Spain and Sweden are OECD it will give up develop-ing country status in trade in industrial products. But officials say its regime for agricul-tural trade is a matter for the insisting that Korea agree to renounce its developing coun-

Ericsson boost for Turkish Dumping duties irk pasta makers

Korean exports: where they go

By region, 1994 (% of total exports)

Flest of world (20.4%)

North-east Asia (2.8%)

Latin America (3.2%)

China (8.5%)

indian subcontinent (1.7%).

reluctance partly reflects gov-ernment concern about the

country's growing current account deficit. But they say

Korea also seems generally

Italian pasta companies yesterday threatened to appeal against a US decision to impose anti-dumping and antisubsidy duties on imports. The US International Trade Commission said on Tuesday that cheap imports from 20 Italian and three Turkish pasta

producers had injured domestic producers. The Commerce Department will impose defini-tive anti-dumping duties of between 0.67 and 47 per cent on Italian producers. De Cecco, Italy's largest

exporter of pasta to the US, was hit with the heaviest antidumping duty, and an anti-subsidy duty of 3.27 per cent. Mr Roberto Bonucci, managing director of De Cecco, said yesterday the company was "extremely displeased" by the PTC's decision, especially as De Cecco pasta cost up to twice as much as US-produced pasta.

have damaged the competition by undercutting US pasta: it seems to me this is the reverse," he said.

Mr Giuseppe Menconi, president of Unipi, the Italian pasta-makers' trade association, said yesterday an appeal was a strong possibility. The pasta-makers can appeal

to the Court of International Trade in New York. The Italians are also putting informal pressure on the US government through the European

Italian producers export 150,000 tomnes of pasta a year to the US. De Cecco's US exports of 20,000 tonnes account for about 30 per cent of its production

Provisional duties are already in force against Italian pasta imports following a lobby by US producers, including Borden, Hershey and Gooch Foods.

WORLD TRADE NEWS DIGEST

BT links with Korean ally

British Telecommunications yesterday announced an alliance with Dacom, a privately owned South Korean telecoms carrier Formerly the Data Communications Corporation of Korea, Dacom was established in 1982 with Korea Telecom holding a substantial stake. It has since been privatised and competes with Korea Telecom in the international voice and domestic long-distance market.

The joint venture will provide business communications services for companies in Korea and it will give its customers ss to global services from Concert, BT's joint venture with MCI of the US.

Mr Ik-soo Son, president and chief executive of Dacom said:
"BT is the best possible company partner to help us meet our objectives in the areas addressed by the proposed joint venture." Dacom employs about 3,000 and had revenues of \$462m in 1995. It is a member of the Hansol Personal Communication Service consortium which won a licence this year to offer mobile services across Korea. Alon Cone, London

new to Pare

US-Japan chip talks fail

The US and Japan have failed to resolve their differences over semiconductor trade following two days of talks in Tokyo. "We held discussions on proposals from the both sides, but reached nosettlement," said an official at the Ministry of International Trade and Industry. However, he said there had been "a deeper understanding of the other's proposal" on a new framework to replace the bilateral semiconductor agreement which expires at the end this month. Washington has been pressing for a new bilateral framework which has boosted the foreign share of the Japanese microchip market to above the target of 20 per cent.

Ukraine to lease Boeings

State-owned Air Ukraine will lease two Boeing-767 aircraft for non-stop flights to North America to replace againg Soviet-built flyushin-62 aircraft. The Bosings will operate on existing routes linking Kiev with New York, Chicago and Toronto and to two planned destinations, Miami and Los

The leasing arrangement was concluded through a joint venture set up with the US company Crusader with a capital of \$250m. Further leasing arrangements are expected.

The Bosing aircraft are expected to generate considerable fuel savings compared to over the II-62. Ukrainian media has also reported that the Ilyushins will no longer conform to US anti-noise legislation from next year.

RJ Reynolds in Belarus venture

RJ Reynolds Tobacco, a unit of US consumer goods group RJR Nabisco, is negotiating a joint venture to produce cigarettes with the Grodno tobacco factory in Belarus, but several issues must be settled before the government can approve the deal. An official at the Ministry of Foreign Economic relations did not assign a price to the potential deal but said that the investment would be split evenly.

Interfax news agency said the company would invest \$12m over five years to modernise the factory and sought excise duty and value added tax exemptions, but the Belarusan side wanted \$20-\$30m in new equipment.

Ford will begin manufacturing cars and vans in Minsk next year after signing a \$20m joint-venture deal with Belarus and Lada of Russia in May. Reuter, Mins. Reuter, Minsk

NEWS: INTERNATIONAL

Resolution strengthens plan for international East African force to halt ethnic killing | Africa to

OAU backs Burundi

After decades of ignoring civil strife within member nations, the Organisation of African Unity (OAU) yesterday gave emphatic backing to a proposal to send East African troops into Burundi to halt the killing between majority Hutus and minority Tutsis.

the initiative - planned by Tanzania, Uganda, Ethiopia -Burundi's internal affairs, the erly concern and genuine anxiety to avoid a new African catastrophe".

the end of the three-day summit in Cameroon was more hard-hitting than a draft version circulating beforehand. which vaguely commended regional efforts "to set up a technical committee to look into the modalities of extendAfrican leaders declared their full support for decisions regional summit in Arusha to provide troops to guard politicians, key installations and re-train Burundi's Tutsi-domi-

UPRONA, the Tutsi-dominated party, to talk to Hutu-led rebels operating from Zaire.

reached at last month's to give it a formal blessing

political solution fail, Tanzania for one, is ready to realise its plans in the teeth of resistance from the Tutsi community. More than 150,000 people have died in Burundi in the past three years and thousands have fled into neighbouring countries, stoking instability in

ity tribe that dominates the army and insists on controlling any regional force sent to



in a rebel attack on the Teza tea estate last week

peacekeeping mission

and agencies

Rejecting suggestions that

amounted to interference in OAU concluded instead that it was "a demonstration of broth-

ty to avoid a new African the former Tanzanian presi-atastrophe". dent chairing peace talks The resolution adopted at between Burundi's political parties.

His attempts to negotiate a political settlement between

nated security forces. That meeting was considered a diplomatic breakthrough, because it was the first time that the leadership in Burundi had formally asked for outside help.
The OAU resolution, which

also appealed to other nations to provide logistics and finan-cial support for the venture, will satisfy Mr Julius Nyerere,

the two ethnic communities have so far been sabotaged by the steadfast refusal of

African deployment remain nebulous, the OAU's decision may encourage UPRONA to

But Mr Nyerere has made it clear that if all attempts at a

a politically fragile region.

"It's a good initiative,"
Burundi's prime minister Mr
Antoine Nduwayo said. Mr
Nduwayo is a Tursi, the minor-

As a Tutsi, he is caught in the middle between hardliners rejecting the plan and the govunder intense international



Roula Khalaf speculates on how Riyadh may use a \$8bn windfall

il bonus mystifies Saudi watchers

nues from higher oil prices this year. But how the windfall is being used is anybody's guess. So far, according to economists and businessmen, not much of it has found its way

into the local economy. prices in the first half of this vear have been about \$4 higher than the \$14 price assumed in the SR150bn (\$40bn) 1996 budget unveiled in January. Businessmen and economists

are eager to find out how the oil bonus is being used in view of the government's commitment to reducing reliance on oil and promoting the private sector.

King Fahd's illness in recent months seems to have slowed the momentum for economic decision-making this year. Economists fear that the secu-

Saudi Arabia may receive as rity challenge posed by the much as \$80n in extra reverent attack on a US Air Force personnel compound in Dhahran, the second bombing in the kingdom in eight months, will relegate economic matters even further. Meanwhile, political analysts

obsessed with "Al Saud watch-Average Saudi oil export ing are searching for signs of a power struggle within the royal family. Allocations of surplus revenue require a decision by King Fahd at a time when Crown Prince Abdullah has taken up much of the day to day business. Prince Sultan, the defence minister, is also intimately involved in decision-making. According to Mr Kevin Taecker, chief economist for

the Saudi American Bank in

Riyadh, possible priorities for

spending the surplus revenue

include expanding the military,

accelerating payments to con-

Opec oil price index*

1995

tractors for past work, retiring debt, giving more to government workers, helping with payments owed by government companies and early payments on military and civil aviation programmes. Mr Taecker says that the may have already gone army adequately equipped.

most effective way to use the funds is to put money in the bands of the private sector and increase consumers' buying power to stimulate growth. Settling payments to contractors and giving one-off extra pay to government workers whose salaries have been frozen for years would go some ways to achieving these goals.

Security concerns, however, could take priority this year. Some economists are estimating an increase of 10 per cent defence spending to strengthen security in military installations in light of the

Saudi Arabia's defence budget accounts for about 15 per cent of GDP, the highest in the world. Prince Sultan is seeking to build up the army and purchase new tanks, and prepayments for US arms purchases

generally favours keeping a tight lid on spending. But the Saudi National Guard, the largely Bedouin force headed by the Crown Prince which looks after internal security and acts as a counterweight to the army, is believed to want to buy a large number of armoured vehicles. Defence spending is one of

two areas increasingly viewed with suspicion in business circles. The other is the estimated SR30bn in stipends distributed yearly to about 5,000 Saudi princes. Saudi businessmen argue that Saudi Arabia would not be able to defend itself against an aggressor and will seek outside help, so all it needs is a viable deterrent. They estimate that the air force is already well trained and both the air force and the

have \$60m investment fund By Joel Kibazo in London

The Commonwealth is launching a \$60m fund to invest in newly privatised companies and growing private companies in Africa. The Africa Fund, to be

launched by South Africa's President Nelson Mandela in London today, is the first in a planned series of regional investment funds to be estab-lished under the umbrella of the Commonwealth Private Investment Initiative. The initiative was first discussed at last year's meeting of Commonwealth finance ministers. Plans for similar funds for the Indian sub-continent, Pacific islands and the Caribbean are

under way.

The new fund is to be run by the Commonwealth Development Corporation (CDC), the UK's official development finance institution, which provided the seed capital of \$25m.
The rest of the money was raised from third world Commonwealth countries including Singapore, Malaysia, South Africa, Zimbabwe and Bot-

Management buy-outs will be considered as well as investments in privatised companies and in small and medium-sized private businesses. Initial investments are likely to be about \$3m and the corporation will rely on its 12 offices in Africa to look into companies in which it intends to invest.

Mr Robert Binyon, managing director of CDC financial markets, said all investments would be on a "sound commercial basis". He added: "The Commonwealth is often only seen as a talking shop. But it needs to have a positive undercurrent of things going on such as this. The long-term objective is to act as a catalyst and attract other investors to Africa, especially those who may not have thought of investing in Africa without a fund such as this in existence."

CDC said it had a target of around 20 per cent of internal rates of return for the fund and indicated plans to tap international financial markets to increase it once the initial capiINTERNATIONAL NEWS DIGEST

Loans for Aids vaccines urged



Developing countries should take out World Bank loans to pay drugs companies for vaccines against HIV and Aids, said the head of a new international pressure group, the International Aids Vaccine Initiative. Dr Seth Berkley, IAVI's chairman, said that the costs of treating Aids victims was so high that borrowing to pay for vaccines would still leave a developing

country better off. "Seventy per cent of teaching hospital beds in Uganda are taken up by Aids patients," he said at the Eleventh International Conference on Aids in Vancouver, Canada. IAVTs directors include African, Asian and Americans. It is backed by the New York-based charitable Rockefeller Foundation, where Dr Berkley is associate director

The offer of hard currency payments by developing countries would create a market for an HIV vaccine where there was none now, said Dr Berkley. Dr Berkley said IAVI had already had talks with the World Bank and outlined a had already had take with the world bank and outlined a plan for 10 developing countries each to take a \$100m line of credit. He said that global annual spending on HIV/Aids was about \$10bn a year, of which two-thirds was on prevention and treatment. Of the \$2bn spent in research and development. less than 7 per cent was on vaccines. Daniel Green, Vancou Technology, Page 8

HIV drugs yet to be exploited

There are at least 12 classes of drug that could stop HIV, the Aids virus, of which only two have so far been exploited, said Aids virus, of which only two have so far been exploited, said Dr Didier Trono, of San Diego's Salk Institute for Biological Studies, at the Vancouver Aids conference yesterday. He said that at least 14 proteins had been identified as essential to the life cycle of HIV. The drugs already on the market, and which have proved promising when taken together, attack only two: protease and reverse transcriptase. "Some of the treatments discovered through such research." "Some of the treatments discovered through such research [could] be non-toxic, easy to administer and, most importantly, inexpensive," said Dr Trono.

Daniel Green

Niger general 'stages coup'

Political parties in Niger yesterday accused the west African country's military leader of staging a second coup d'etat as the results of two days of voting cast him as outright winner of presidential polls.

A new National Electoral Commission, appointed on Monday after General Ibrahim Bare Mainassara suspended the previous one, gave him 52.22 per cent of the vote. General Mainassara's nearest rival Mr Mahamane Ousmane - the civilian president ousted in a January putsch, notched only 19.75 per cent.

Outside observers are unlikely to judge the poll free and fair with voters unable to find their names on lists and soldiers surrounding opposition candidates' homes and snatching ballot boxes from polling stations. Michela Wrong, Nairobi

Mubarak to visit Turkey

Mr Hosni Mubarak. Egypt's president, is due in Ankara today on a one-day visit. He is the first foreign head of state to visit Mr Necmettin Erbakan since Turkey's first Islamic prime minister was appointed two weeks ago.

Mr Muharak is expected to encourage Mr Erbakan's stated aim of improving Turkey's relations with the Arab world, strained by a military co-operation agreement with Israel in



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in New Delhi

India's five-week-old United Front government ran into an immediate barrage of protest at yesterday's opening of parliament from Congress party and Bharatiya Janata party MPs over last week's rise in administered fuel prices.

Congress MPs, on whose support the 13-party coalition government depends, held up the

session's opening by 15 min-utes, demanding a review of the petrol, diesel and cooking gas price increases. The UF government raised prices by 25-30 per cent last week, later trimming the diesel price rise to 15 per cent after earlier protests from unions, leftist parties, state chief ministers and even members of the coalition.

Congress leaders have said although they would oppose the "anti-people" fuel price rises, they would still give overall support to the coali-

Nevertheless, the "monsoon" session of the newly elected parliament is expected to be a severe test of leadership for the prime minister, Mr H.D. Deve Gowda, whose coalition has already been rocked by rows over cabinet jobs. Internal rows have already twice forced Mr Gowda to expand his cabinet, while Mr Mohammed Tas-

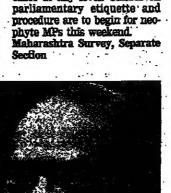
limuddin quit as minister of the Congress party, its other state for home affairs on Tues-chief pillar of support. Mr P.V. day after the BJP threatened to raise allegations of criminal charges against him.

Mr Gowda must also contend with suspicion within the Communist Party (Marxist) which also supports the UF from outside - over the government's economic policy intentions, and with a forthcoming series of corruption cases implicating members of

Narisimha Rao, Congress leader, was this week summoned to appear before a Delhi court on July 24 to answer alleged swindling of a London-

The toughest task may prove winning passage of the UF's first budget, which Mr P. Chi-dambaram, finance minister, is expected to present on July 22.

Mr Gowda's task may prove trickier given the unprecedented inexperience of the MPs elected in the April-May poll. About half the 545 MPs are new to the Lok Sabha, the lower house, and nearly a third have held no representative office at any level. Classes on



Rac: case may prove to be thin

investigation by the CBI in a case alleging that four MPs from a minority party received bribes in 1993 to vote for Congress in

Whether the CBI's greater freedom and the Supreme Court's added zeal amount to a lasting cleansing of Indian politics, or merely a licence to proceed against those now out of power, remains to be seen.

What is most unlikely to be seen though, are Chandraswami's greying locks and flowing robes on Mr KashASIA-PACIFIC NEWS DIGEST

Burma hints at Suu Kyi exile

that if democracy leader Ms Aung San Sun Kyi were to rethe from politics and leave the country, relations between Burms and the west would improve and a domestic political dialogu could be initiated. The idea, raised in a commentary published in state-run newspapers, reflects a growing belief among analysts that the military junta is looking for a way to defuse a tense domestic and international situation without having to engage Ms Suu Kyi directly.

The official commentary was published on the first anniversary of Ms Suu Kyi's release from nearly six years of house arrest. At the time of her release one year ago, military leaders asked her to help foster national reconciliation but have since refused her repeated calls for dialogue, saying that her peaceful activities but strong criticism are those of a tructionist". Ms Suu Kyi has said that she does not have any preconditions for dialogue - and some within the opposition movement are orging her to take a lower profile in order to lure the military into talks - but that she will not

Malaysian trade deficit surprise

Malaysia recorded a surprise trade deficit in April after exports fell by more than imports. Economists, many of whom had expected a surplus, said the deficit could signal that government measures to cool the economy were starting to take effect. April's deficit was M\$255m (US\$106m), compared with a surplus of M\$524m in March, the national Bernama news agency said. For the first four months of the year the trade deficit was MSL 6bn compared to MS2.1bn in 1996.

Malaysia's trade balance is one of its most closely watched economic indicators. The country's current account deficit last year of M\$17.8bn, or 8.8 per cent of gross national product, was year of matrioni, or of the country is spending beyond its means. In April, imports fell 8.0 per cent to M\$16.24bn from M\$17.66bn in March, while exports dropped 12 per cent to M\$15.98bn from M\$18.18bn. The drop in experts was partly because of a slowdown in workiwide demand for electronics goods, of which Malaysia is a significant

Lake's China visit cut short

Mr Anthony Lake, US national security adviser, yesterday cut short his visit to China after poor weather conditions forced him to cancel a trip to Shanghai. Mr Lake was scheduled to travel to the city yesterday, to discuss Taiwan with the chairman of the semi-official Association for Relations across the Taiwan Strait. The US embassy in Beijing said weather conditions in Shanghai had forced him to cancel the trip. The tone of talks between Lake and top Chinese officials in his four-day visit to China was upbeat, with both sides agreeing that while there will continue to be differences between the two countries, maintaining dialogue and exchanges at various levels could play an important part in keeping often stormy bilateral relations more stable. An exchange of state visits between the two presidents now seems likely – though not before 1997. Sophie Roell, Beijing

Guangdong boost for companies Guangdong authorities have completed drafting a series of preferential policies to be extanded to the region's strongest

companies, according to officials in the southern Chinese province. The benefits, which are expected to be made available to about 70 companies, include favourable treatment in terms of tax, fund-raising, investment and foreign trade. The aim is to create powerful groups to spearhead the

province's development and to rescue weaker companies;

Officials in Guangdong, one of China's most dynamic economic areas, indicated that selected companies will be given priority in offering and listing shares and in issuing corporate debt. The authorities declined to comment on which companies would be included. However, they are expected to include several listed companies, including Shenzhen Konka Electronics. Shenzhen Petrochemicals and Zhuhai Lizhu

Adventurous life of Rao's 'god man'

Mark Nicholson reports on the rise and fall of the colourful Chandraswami

movie stars, tycoons, kings and sul-tans and, as of this week, co-accused in a Delhi swindling trial with Mr P.V. Narasimha Rao, former prime minister, has for two decades read as fantastically as fiction.

But today, as Chandraswami traipses dejectedly between Delhi's Tihar jail and a court where he faces charges of defrauding a London-based businessman of \$100,000, his tale is one of decline and fall - a decline Indian commentators see as inextricably bound with that of the Congress party Mr Rao led into an historically poor electoral defeat in

His fall is emblematic of the decline of Congress, because men like him have always thrived in what you could call 'Congress culture'," says Mr Sunil Sethi, a newspaper columnist and journalist who has long charted the murky career of India's most flamboyant "god man". His career began 47 years ago in an

Having reshuffled his cahinet

several times. Mr Banharn

Silpa-archa, Thailand's prime

minister, has taken the more

drastic step of rearranging his

office furniture in the hope of ensuring his political longev-

ity. The embattled prime min-

ister called in geomencers,

experts in fengshui, who

FEVANCIAL TIMES

Financial Publishing

The rags-to-holy robes and obscure north Indian village, from riches story of Chandraswami, where the young and ambitious Mr. self-styled Indian guru to Nemi Chand Jain plotted himself a where the young and ambitious Mr. Nemi Chand Jain plotted himself a course in his early teens which took him into Congress party politics in Andhra Pradesh, where Mr Rao was a state political leader.

His path reputedly took him wan-dering through the lowland Himalayan forests in search of spiritual enlightenment before Mr Jain reemerged saffron-robed in the 1970s as Chandraswami, soothsaying mystic and increasingly well plugged-in polit-

The 1970s found Chandraswami crisscrossing the globe, claiming to be the "spiritual brother" of Indira Gandhi, then prime minister, and associating with the likes of Ms Elizabeth Taylor, the film star, Mr Adnan Kashoggi, the Saudi arms dealer, or the Sultan of Brunei.

Since the 1980s the Indian media began linking the bearded swami. whose base is an opulent three-storey, pink marble ashram in Delhi, with a series of political and financial

advised him that the office fur-

niture was in an inauspicious

position and helping to under-mine his ability to assert

authority over his fractious

seven-party coalition.

Mr Banharn was told to

move his desk because it faced east - a word which in Thai

can also mean "out". That

prospect eased this week when the Prachakorn Thai party

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But few media allegations stuck to Chandraswami. He was initially arrested in 1988 on charges of defrauding Mr Lakhubhai Pathak, the London-based foods executive, who then alleged the "god man" duped him into paying \$100,000 to secure newsprint and paper contracts. However, Chandraswami was released a week later and investigations dragged on until this May, when the swami and an assistant were finally arrested on the charges in Madras. t was during the hearing of the

case this week that Mr Pathak's allegation of Mr Rao's involvement prompted Mr Prem Kumar, the presiding judge, to summons the former prime minister. If found guilty, both men face jail terms of seven years, though lawyers say the case against Mr Rao may prove thin. But their joint appearance in a Delhi court would embarrass Mr Rao and Congress, and give ammunition

to opposition parties which allege his

involvement in other corruption

Experts in Chinese fengshui have been called in to help Banharn Silpa-archa assert his authority

opposite the capital's main

railway station, Hue Lam-

phong. The bank is situated in

line with a dozen rallway

tracks and roads, which lead

to it and are believed to chan-

nel evil forces into the build-

ing. Experts in fengshui say the solution is to build a bank

in the shape of a dragon – a powerful barrier against evil luck.

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-TAX FREE

\$32 ROUND

rejoined Mr Banharn's coali-

tion, restoring his 73-seat

majority in parliament before

a censure motion expected

The prime minister, who is ethnic Chinese, is not the only

That to turn to the traditional

forces. Fengshui experts have

noticed that a branch of south-

east Asia's biggest bank, the

Bangkok Bank, is situated

later this month.

FUTURES OPTIONS & FOREX

seven ex-Congress ministers, have been charged in the affair. Three more politicians were charged yester-In April, the Supreme Court demanded the CBI tarry no further in investigations against Chandraswami, and in March a 50 page public interest petition was filed at the court alleging his complicity in a series of scandals and currency violations. Citing evi-

the party pressing to depose the 75-year-old leader.

The flurry of cases stems in part from the increasing activism of India's Supreme Court, which in Jan-

nary was the driving force behind

bringing to prosecution a political bribes affair which had lain moulder-

ing in the files of the Central Bureau

of Investigation for five years. Twen-

ty-five senior politicians, including

dence from the "god man's" testimony to another commission examining the background to Rajiv Gandhi's sination in 1990, the petition also stated Chandraswami had privileged and frequent access to Mr Rao - a "special relationship" Mr Rao denies.

Geomancers guide Thai PM on office furniture his date of birth was August to fengshui after a series of setbacks prompted political 19, 1982, as shown in the official biography published up after last year's election. But observers to speculate on his

> central bank resigned under a Mr Banharn does observe se superstitions, but in a Buddhist country, the prime minister, like his That predecessors, has also built up his merit with regular gifts to

political demise after only a

year in office. Mr Banharn has

lost a finance minister, the

boss of the country's Securi-

ties Exchange Commission

and, last week, the head of the

recently had to confirm that

the 1995 directory of MPs, shows his birthday as falling on July 20, 1932. Mr Somsak Prissana-nanthakul, a govern-ment spokesman, said the change was common practice in Thailand because the Buddhist calendar differed from the Gregorian one.

He dishissed as monitorial

his house registration docu-ments for 1972 and 1979 and

cal" widespread suggestions the premier wanted to change his star sign to Leo to match As the accident prone Mr previously successful prime ministers Mr Prem Tinsulan-link is welcome. The premier onds and Mr Angad Provided

Privatieation revenues (peecs bri)

Pharmaceutical Group. Ramos government puts state sell-off at 'heart of its vision'

hen the Philippine government's nriver government's priva-tisation drive got going in 1992 critics accused it of "selling off the family silver to stem the growing bud-get deficit. As privatisation approaches a new and more radical phase and with the budget deficit problem now closer to being resolved, those critics are more likely to point to ideological motives behind

the drive. With most of the Philippine state's industrial assets already sold off to the private sector, officials are searching for less obvious candidates. Mr Roberto de Ocampo, secretary of state for finance, says it is ential to keep the momentum going.
"Privatisation and the spread

of share ownership is at the heart of this government's vision," said Mr de Ocampo. We believe that as much of the state sector as possible -including some aspects of health and education services should be in private hands." The Philippine National Bank, the National Steel Corporation, government military lands, Philippine Airlines, the state of company and the Philippine Long Distance Telephone Company have already been sold off. Now the government is having to delve deeper. Known as the "third wave" of privatisation, the next enterprises targeted for auction include state pensions and government social security funds,

say officials. Before then, however, the second wave must run its full course. The two remaining big ticket items - the National Power Corporation (Napocor) and the Manila water system - are due to be sold off early next year. Revenues from the sale of Napocor's power gener-ation facilities will come to an estimated \$4bn to \$5bn once the divestment is completed. This will make it the Philipnines' largest privatisation by

Under the guidance of N.M.

43.9

Philippines: the sell-off goes on

Rothschild - which advised on British electricity privatisation in Britain in the late 1980s and Merrill Lynch, the US investment bank, Napocor is drawing up the formula for its

and competitive playing field in the Philippine power sec-tor," said Mr Peter Bird, director of N.M. Rothschild. Officials at Napocor, who estimate that most of the proceeds will be used to upgrade the country's transmission

divestment next year. "The

basic objective is to get a level

lines and create a national grid linking most of the archipela-go's 7,000 islands by submarine cable, say that at first only Napocor's generation facilities will be sold off. These include coal, gas, geothermal and oilfired power stations. Foreign companies will be able to bid for up to 100 per cent owner-Overseas companies operat-

ing existing power plants under the government's buildoperate-transfer (BOT) law notably the power subsidiary of Hopewell Holdings, owned

by Mr Gordon Wu of Hong Kong, which is credited with ending Manila's "brownout" electricity crisis in 1993 - will be able to renegotiate their contracts. One option would be to shift to a build-operate-own (BOO) contract.
Broadly speaking, the state

Once a solution to deficit problems, privatisation

is now a policy commitment, writes Edward Luce

would retain control of a national transmission authority while generation would go to the private sector. Electricity distribution has already been privatised. All that remains is for a regulatory structure to be set up.

"We are very aware that the Philippines has no fair trade or monopolies and merger authority yet," said Mr Fernando Roxas, chief of privatisation at

Napocor.
"What we are hoping is that congress will set up a sole regulatory body with the power to set a cap on price increases and prevent anti-competitive concentration of ownership," The other bulk privatisation,

the Manila water and sewerage system, will bring less of a windfall for the state coffers. In both the power and water privatisations, though, the winning bidders will be required to return 10 per cent of equity to employees in company share ownership plans. And in both sectors, the pri-

vatised companies will be required to list on the stock market within a specified period, in pursuit of the gov-ernment's aim of wider share

ownership.

Following a model developed in Buenos Aires, the Manila water system will be divided into two concession areas and contracted out to the most viable bidders. Bidders - so far five foreign companies, mainly French and British, are prepar-ing documents - will be required to invest about \$3bm in each area to upgrade the distribution network over the 25-year concession. The contracts will be completed by February next year. We are not actually taking

proceeds from the water priva-tisation," said Mr Angel Lazaro, head of Manila Water. But we are saving the taxpayer \$6bn of public expenditure over the next 25 years." Once Napocur and Manila's water network are in private hands, will there be anything left for the state apart from

regulation? President Fidel Ramos, whose term ends in 1998, says his administration's objective is to focus public spending on the victims of market failure. More than a third of the country's 68m people subsist below the poverty line

Once a new tax system is in place - designed to increase budget revenues as proceeds from privatisation taper off the government promises to step up spending on schools and hospitals for the poorest. Cash generated from the "third wave" of privatisation will also contribute to anti-poverty

LEGAL NOTICES LIFLAND TRUCKS (REALISATIONS) LIMITED (FORmerly LEYLAND TRUCKS LIMITED) (EM ADMINISTRATIVE TOWNS TO SHE OF SHE INCIDENCE OF SHE OF SHE INCIDENCE OF SHE LEYLAND DAF INTERNATIONAL DAF INTERNATIONAL LIMITED ated July 5 1776 **CONTRACTS & TENDERS** A.N.M. Azienda Napoletana Mobilità **NOTICE OF EXTENSION**

Re: Open tenders for the supply of 200 urban buses Notice published in the Official Gazette of the European Community S90/207 of 10.5.98 and in the Official Gazette of the Italian Republic no. 116 df 20.5.98. Notice is hereby given that the deadline for the presentation of offers, previously set for 1p.m. on 9th July 1996, has been extended to 1 p.m. on 24th July 1996. The contest will be carried out on 25th July with the same procedures as

in the notice of call for bids.

The General Manager (Dr. Ing. A. Ranieri)



Minister Balan Burton Responding Steeling **Ga Tight and Station &** publish **建**性原则。 PC bitterio Bearing and Fred to Sand Street 🌬 day 🖺 👉 - 👢 🥫

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Joint venture component manufacturing operations will create up to 500 jobs

'Urgent' Honda announces £80m expansion



Carmaker Honda and Carmaker Honda and Unipart, the vehicle parts and accessories group formerly owned by Rover Group, are to set up three joint component manufacturing companies in the UK.

Together with a fourth joint venture also being planned between Unipart and Kautex, the German plastics group, they will create 400-500 jobs and involve total investment of £80m (\$124m).

Honda, currently producing 100,000 cars a year at its Swindon plant in south-west England, and Unipart headquartered at nearby Oxford -

50 per cent capacity increase to 150,000 will manufacture pressed steel body by far the biggest pay-off to date for its cars a year already planned for 1996. components and sunroof assemblies. long-term strategy to become a world-Like Missan, it is considering a third model for the Swindon facility - in addition to the Civic and Accord.

Unipart's group chief executive, Mr John Nelll, said the ventures made it increasingly clear that the UK had the potential to become "the enterprise centre of Europe". But he coupled the statement with a warning that the UK's attractiveness as a centre for foreign inward investment would be sharply reduced if the UK were finally forced to adopt the European Union's social chapter. "Put bluntly, if we'd already been signed up I don't think Honda and our other Japanese partners would have taken these projects on." The three new joint companies

announced the projects last night.

The Japanese company is also studying the prospect for further expansion of its Swindon plant over and above a Third are larger these projects on.

The three new joint companies formed with Honda of the UK Mamufacturing are:

Unipart Yachiyo Technology, which

 Unipart Yutaka Systems, a venture with both Honda and Japanese components group Yutaka Giken, to make exhausts, catalytic converters and chas-

which Japanese parts group Yanagawa Selki is also a partner and which will produce gearbox components.

The venture with Kantex UK will involve building a new factory to produce plastic fuel tanks for Honda and other UK-based vehicle makers. While most of the new ventures' output will go to Honda's Swindon assembly lines and to Unipert's other principal components customer, Rover Group, Honda is actively encouraging Unipart to find business for the ventures among its carmaking rivals in Europe. For Unipart, the ventures represent

It spent several years in the late 1990s persuading Honda that it could meet Honda's cost and quality standards as a supplier. Mr Neill said: "We deliberately chose Honda as a manufacturer from

whom we could learn how to become world-class." Mr Kentaro Kato, managing director of Honda's UK manufacturing subsidiary, said yesterday the new ventures were a demonstration of Honda's "fundamental commitment to establishing

beef cut measures called for By Neil Buckley in Brussels

cut beef production in the European Union and "rebal-ance" the beef market in the wake of the mad cow crisis, Mr Franz Fischler, EU agriculture commissioner, warned He also criticised beef trad-

ers and retailers for failing to pass on to consumers the fall in beef prices experienced by producers. Commission offi-cials said retail beef prices should be between 8 per cent and 14 per cent lower in many countries, which could help rekindle consumer demand.

Speaking in Brussels to the EU's economic and social committee, Mr Fischler said the four-month-old BSE crisis had led to an 11 per cent decline in beef consumption, and beef stocks bought by the Commission to support the market likely to reach 600,000 tonnes

by the end of the year. He warned that such market intervention could never be a substitute for consumer demand, and there was a danger of intervention stocks overhanging and depressing the market. The EU can no longer sell beef stocks cheaply into the world market - a wide spread practice in the 1980s because of new rules restrict-ing export subsidies. Without "radical and imme-

diate action" to rebuild consumer confidence and rebalance supply and demand, the jobs of millions of producers could be at risk.

Commission officials are thought to be considering a number of adjustments to the beef market, including reexamining premium rates for calves sent for slaughter and lowering weight limits for animals bought into intervention by the Commission. Mr Fischler's warnings came

amid mounting criticism of the Commission's handling of the crisis.

Mr Klaus Hänsch, the president of the European Parliament, has written to Mr Jacques Santer, Commission president, calling for the Commission to make a statement on the crisis to next week's parliamentary session in Strasbourg.

The UK government

expects the European court to rule in favour of a partial lifting of the worldwide bam on British beef today. "We are optimistic of a

relaxation in the ben to third countries which can't export back to the EU," said Mr Douglas Hogg, the UK agriculture minister. That would open up exports to 70 countries which previously imported British beef.

Mr Nik Askaroff, the managing director of ADM, one of the UK's higgest exporters, said business to those coun-tries was worth between £150m (\$232m) and £200m a year, out of an export total of quite a good thing because a number of African countries will buy on price, but it will take a very long time for trade

have made clear that the RUC

chief constable and his deputy have their full backing and complete autonomy. "This is a

law-and-order issue," said a cabinet member. "Political

compromise does not come

The broader task is to ensure

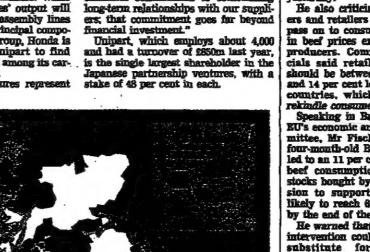
that voices of moderation are not drowned out. The

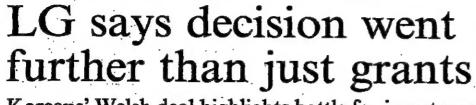
multi-party talks in Belfast are

in danger of petering out, their reason for existence under-

mined by the IRA's refusal to restore its ceasefire and union-

ist antipathy towards Mr George Mitchell, the former US





Koreans' Welsh deal highlights battle for investment

By Stetan Wagstyl in London, John Burton in Secul and Roland Adburgham in Cardiff

There were other considerations, besides grants," says Mr Koo Cha-Hong, pesident of the LG Group, the South Korean conglomerate which has announced plans to build a £1.7bn (\$2.6bn) electronics com-But grants certainly seem to

have played an important role in the company's decision to choose Wales. British government officials who observed the negotiations said the South Korean group exploited differences among the regions competing for the project to get the best possible deal. They said: "LG played it for all it was

there was anything untoward in the behaviour of LG or of the Welsh Office and the Welsh Development Agency, which are giving LG up to £200m in aid. But the claims and counter-claims about the size of the award highlight how intense battles for inward investment

When British officials first heard of LG's plans last year,

terday are for two factories; a microchip plant to be built by LG Semicon, the group's semiconductor maker, employing 1,700, and a consumer electron-ics plant making television components and televisions which will create up to 4,400

LG sees the scheme as the launch of an ambitious programme to increase sales from \$64hn last year to \$385hm in 2005, with overseas turnover rising from 20 per cent to 50 per cent of the total.

LG, the third largest Korean conglomerate, believes overseas growth is the solution to the problems afflicting all Korean conglomerates, including a stagnant home market, rising domestic wage costs and the threat of trade protectionism. Although Asia remains the favourite destination for Kor-

ean investment, Europe has

emerged recently as a new magnet for Korean factories as trade booms between Seoul and the European Union. LG was an early pioneer in Europe, having established a VCR plant in Germany in 1986 followed by a microwave oven and television factory in north

east England in 1988. In Europe, the UK was nal European base, executives complained about growing wage costs. LG has increasingly preferred the UK because of lower wage costs, lower taxes, open economy and the English language, which is extensively taught in Korea. Having decided on the UK, LG focused on the regions. Wales, Scotland and northern

England got priority because they include most areas where maximum grants are available. northern England was ruled out early because there was insufficient land by LG's exist-ing plant. Also, LG did not want to compete head-to-head with Samsung, which had just opened a £450m consumer electronics complex at Wynyard Park in north-east England.

Three factors seem to have given Wales a lead over Scotland - good early rapport with Weish officials, the relative closeness of Wales to London, and the presence in Wales of a key potential supplier - Ocean Technical Glass, a Japanese-German joint venture in Cardiff, making high-tech glass

But discussions with the Welsh apparently ran into trouble since LG in early 1996 was talking about locating in



aid offer to win back LG, according to persons familiar with the negotiations. Having selected Wales, LG

Electronics officials assumed LG Semicon, its 56-per-cent owned subsidiary, would follow. But as late as May, when the BBC first reported LG's plans, LG Semicon was still proposing a separate plant in Scotland or Ireland. Mr Michthey were assonished at their always a first-choice. Although, western or central England, all Rossyth, the Scottish secondary flow to South Korea and Scotland. Wales won.

amid Welsh fears that he was about to poach the chip plant. Meanwhile, Ireland was dropped by LG for lack of infrastructure.

But the LG head office intervened to bring the two schemes to one site to save costs. Mr Koo Cha-hong, LG president, denied there were deep divisions between the two subsidiaries. "We sat down and compared the merits of Wales

Ministers deny over-generous financial aid

By John Burton, Roland Adburgham, Chris Tighe and Stefan Wagstyl

The British government yesterday denied that the grants of up to £200m given to the LG group for its £1.7bn investment in Wales were too generous. Mr William Hague, the Welsh secretary, said the support was within guide-lines set down by the Treasury and by the European Commission, which moni-

tors aid across the EU for evidence of

unfair subsidies. The package is the biggest ever offered to an inward investor Mr Hague was speaking in Seoul, Korea, where Mr Koo Cha-Hong, the LG president, yesterday confirmed plans to build an electronics complex with 6,100

jobs in Newport, south Wales, including

ics plants. Mr Hague denied that British regions

had engaged in a bidding war for the project, which also attracted keen interest in Scotland and northern England. Mr Hague's comments were echoed in London by Mr Tim Eggar, the industry minister, who said that the British system in which regions compete for inward investment schemes worked very well. The proof lay in its success in bringing jobs to Britain, he said.

But some Whitehall officials expressed concern that the lack of a strong central authority for inward investment undermined efforts to coordinate British efforts. One official familiar with the LG negotiations said: "The behaviour of the regional authori-

ties just encourages the Korean response [of playing regions off against each other]. It was always competitive but it has become much worse."

The Department of Trade and Indus-

try has an inward investment agency the Invest in Britain Bureau - but it has less experience and fewer resources than the well-financed Welsh Development Agency and Scottish Enterprise. Inward investment officials in the English regions complain that they find

it difficult to compete with Wales and Scotland, which as well as having more funds for inward investment promotion, have their own cabinet ministers to speak for them in government and to meet potential investors. Mrs Jo Chexal, director of interna-

tional marketing for the Northern pean regions.

Development Company, the north's eco-nomic development agency, said yester-day that Wales and Scotland had built-in advantages over the English regions. Welsh officials denied they had an unfair advantage saying that every large investment had to be approved at cabinet level. Also it had to meet EU guidelines - or risk being declared ille-

The grant given LG is the equivalent of about £30,000 a job, which is considerably more than than awarded to most other investors, including the £16,000-£17,000 granted to Siemens, the German group, which is building a semiconduc tor plant in north-east England. However, these awards pale in comparison with those paid in other Euro-

UK NEWS DIGEST

Strike bans to be considered

Plans to ban strikes in essential UK services could be included in the governing Conservative party's election manifesto. The controversial proposal is being considered in response to the industrial unrest which has hit London Underground and Royal Mail and which threatens British Airways. Mr Ian Lang, trade and industry secretary, is keen to press ahead with the idea, although Downing Street said last night the government had "no current plans to outlaw strikes in essential services through primary legislation". Conservative Central Office said the issue was being "kept under review". Workers who might be covered by such a strike ban could

include those in the transport gas, water and electricity industries, as well as doctors, nurses and ambulance workers, firefighters and the police.

NUCLEAR PRIVATISATION

British Energy offer popular

Small investors may get up to 50 per cent or more of the British Energy privatisation, it emerged yesterday after the offer to small investors closed well oversubscribed. The UK government had allocated 30 per cent of the nuclear power company for small investors. But these investors applied for more than twice that amount. Estimates compiled after the close of the offer suggested that there were more than 520,000 applications for about 380m of the 610m shares on offer. Final figures are expected today. The level of retail investor support surprised some analysts especially as British Energy, which operates eight nuclear power stations in the UK, is not expected to report sufficient profits to cover the first year's dividend.

Simon Holberton, London

BREWING

Pub company seeks new deal

Inntrepreneur Pub Company, the UK's largest pub chain outside brewery ownership, is seeking permission from the Office of Fair Trading to drop undertakings it made five years ago to help preserve competition. Some brewers are likely to lobby hard against Imtrepreneur, fearing that OFT approval will give the chain massive buying power. Its 2,900 pubs equal nearly 9 per cent of British pubs outside of brewery owner-

■ PROPERTY

Development contest launched



department's headquarters, Mr John Gummer (left), the UK environment secretary, described the 19-storey building yesterday as "the most discour-teous and rude" in central London. Few would disagree with this harsh assessment of 2 Marsham Street, which has dominated the skyline since it was built in the late 1960s, Mr Gummer was launching an architectural competition for a new development to replace the three concrete towers, which are already crumbling. He will be one of 12 competition judges,

Standing on the roof of his

along with Mr Michael Heseltine, the deputy prime minister, and representatives from the property industry and commu--Stmon London, London

■ MOBILE PHONES

Orange defeats rival in court

Orange, the mobile phone operator, yesterday claimed a comprehensive victory over Vodafone, its larger rival, after a High Court judge threw out allegations that the smaller company made false claims in a £10m (\$15.5m) advertising campaign. Mr Justice Jacob dismissed Vodafone's action - for malicious falsehood and infringement of trademark - and awarded costs to Orange. He said aspects of Vodafone's case were "hopeless". Vodafone, the UK's biggest mobile operator, took court action after Orange refused to withdraw last autumn's campaign focusing on cost savings offered by its business ser-Alon Cane, London

Watchdog warns of higher costs

A UK consumer watchdog has warned that water bills could rise "substantially" because of future European directives as Britain's privatised water utilities come under increasing pres sure to improve compensation to customers. The National Customer Council, part of Ofwat, the water industry regulator. said the European Union's draft revised Drinking Water Directive is likely to cost £2bn (\$3.12bn) over 15 years, adding £5 a year to average bills to meet the cost of replacing lead pipes. Mr Jim Gardner, chairman, warned it would be too late to discuss the measures by the time of the next review of water price controls. Jane Martinson and George Parker, London

■ VEHICLE PRODUCTION

Peugeot recalls 150,000 cars

Some 150,000 Peugeot 306 cars built by the French group's UK subsidiary, are being recalled to remedy possible wiring faults that could lead to under-bonnet fires. The recall covers only right hand drive models sold between April 1993 and the end of February 1996 and follows 20 instances of wiring malfunction, some of which led to fires. John Griffiths, London

FAMILY PLANNING

Birth control - use of contraceptives

Country	World ranking	K couples using contraception
Clima	1634 1 3 5	83
France UK	2= 2=	81 81
Italy Germany	8	78 75
US	19	74
110	102	10
Nigeria Macritagie	112 118	3
Source: Marie Si	opes International: United A	lations Population Division

China tops use of contraceptives China heads the world usage of contraceptives, with 83 per

cent of Chinese married couples using them, according to a study released today. The UK and France share second place, the study, by Marie Stopes International, the family planning charity reveals. The table shows the percentage of married couples of reproductive age using contraception. Former Yugoslavia has Europe's lowest rate of contraceptive - 55 per cent. In Africa there are 16 countries in which less than 10 per cent of couples use contraception. The pill is the most popular contraceptive in Europe, Africa and the Arab world. But female sterilisation is the preferred method worldwide – used by 35 per cent of couples. Cline Cookson, London Clive Cookson, London

in earnings from overseas activity

By Graham Bowley, Economics Staff

UK banks' net overseas earnings declined last year due to the increasing number of them being owned from outside the UK. lower overseas lending and reduced income from oversess interest rate derivatives.

However, UK insurance institutions registered their biggest rise in overseas earn-ings since 1986, according to British Invisibles, the trade group for the (inancia) industry. The total net overseas income of the financial sector rose to £20.4bn (\$31.6m) last year from £18.8bn in 1994, the group's annual survey showed vesterday. Earnings from services were £12.2bn, 60 per cent of the overall surplus, £800m

higher than in 1994. The remaining £8.2bn was generated by earnings from investment income, also £0.8bn higher than in the previous year.

Buoyant conditions on international stock and bond markets in 1985 boosted oversess ... carnings of prusion funds and unit and investment trusts. Pension funds' earnings rose trusts' carnings returned to underwriting income", the to £2bn from £1.7bn. Unit

declining to £587m in 1994. But securities dealers had a worse year. Their net overse earnings fell from £2.1bn in 1994 to £1.7bm. "Although the steep decline in dealing profits apparent in 1994 was reversed, this was more than offset by a return to an outflow of earnings from direct investment,"

ings from direct investment,"
the survey found.
But the purchase of UK
banks such as Barings, Eleinwort Benson and SG Warburg
by overseas buyers meant
there was a 27.5 km outflows of banking sector last year. This meant banks' net earn-

ings fell from £7.5bn in 1994 to £6.2bn last year. Banks' overseas earnings were also hit by lower volumes of overseas Insurance institutions' carnings rose from £4hn to £6hn. benefiting from a big rise in

direct investment income. This

grew from £46m in 1994 to £1.1bn in 1995. Insurance institutions' portfolio investment incomes rose from £2.1bn to £3.2bn last year. Lloyd's earnings rose sharply from £785m to £1.6bn. This included "a doubling of portfolio investment income and a further rise in net

Banks show drop | Protestants under peace spotlight

Violence in N Ireland has taken attention off republican movement In the short term ministers

or once, the prospects for peace in Northern ireland do not rest on the shoulders of Mr Gerry Adams, of the Sinn Féin party of which he is president, or of the Irish Republican Army. As the region slides back towards bigotry and violence, attention is focused on the leaders of the Protestant "loyalist" paramili-

tary groups. At the UK parliament, there is little doubt that the murder on Monday of a Roman Catho-lic taxi driver heralded the return of sectarian killings. Michael McGoldrick, aged 31, who wanted to be a teacher, was shot in his taxi a few days after graduating from Queen's University, Belfast, with a degree in English and politica. British ministers still believe

there is a chance of preventing a repetition of the sectarian murders that continued until the IRA called a ceasefire in August 1994. They hope to persuade the Protestant paramilitaries not to end the ceasefire they declared a few weeks

The UK and Irish governments have known for some time that loyalist political leaders had been holding the line with considerable difficulty following the IRA's return to violence in London's Docklands district in February, Irish leaders, fearful that a return to Protestant terrorism might his credentials as a voice of involve targets in the Republic moderation. "Just when we

As tensions ride high ahead of tomorrow's traditional July 12 celebrations, it is the Orange estant organisation in the Order which is shaping the political agenda rather than the political parties, John Murray Brown writes. Less than six months ago

the Ulster Unionist party, the province's largest party, was voting to sever its links with the Orange Order, which has about 60,000 members. Mr David Trimble, the party leader, publicly outlined a new relationship which would par-allel the ties that the British Labour party has with its trade unions - close but not

in their praise for loyalist leaders in Northern Ireland. In spite of causing mayhem with bomb attacks in London and Manchester, the IRA has studiously avoided escalating the conflict in Northern Ireland. During the early 1990s republicans were literally outgunned by loyalists. One of the arguments that led to the IRA ceaselire was that violence was counter-productive within the

community. More Roman Catholics were killed in reprisal attacks than Protestants. The past week's events are likely to play into Mr Adams' hands, allowing him to present

province, its influence is clear. It also has a critical input to the structure of the UUP, send-ing more than 10 per cent of delegates to the party's Council. For all the Order's denials, there is growing evidence that the wave of protests have been centrally organised. It emerged yesterday that the Orange Order had called on district lodges to submit appli-cations with the police to allow additional protest marches even before the stand marches even before the stand off at Drumcree was under way – an indication that they

start of the "Troubles" more than 25 years ago, it is Catholies who are seen as the victims of an aggressive majority, with British security forces

coming to their aid. image as the law-enforcement of Ireland, have been efforive thought we might have seen agency of Protestants.

The UUP's links with the were preparing for trouble. the last of it, the worst excesses of tribalism have returned to the surface," said a senior member of Britain's goverring Conservative party.
In a re-run of events at the

during the traditionally tense

One of the few possible benefits has been to defuse some of the clamour among nationalists for radical reform of the Royal Ulster Constabulary, the Northern Ireland police force, which has been making concerted attempts to shed its

senate majority leader, who is chairman of the talks. Mr David Trimble, leader of the Ulster Unionist party, the largest pro-British party in Northern Ireland, is being given the benefit of the doubt by politicians in London and Duhlin, who acknowledge that

John Kampfner

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their 1993 level of £72 im. after

Sintra Fund Ltd

marching season, culminating tomorrow when Protestants commemorate their victory over Roman Catholics at the Battle of the Boyne, he had little choice but to be at Portadown, the scene of fierce clashes between hardline Prot-

estants and the police. But he will have been warned by ministers in London that the scenes will have done nothing to strengthen the unionist cause among British voters.

"Aids drugs taken together eliminate the Aids virus HIV from the body." Such a statement would have been

unthinkable even six months ago, according to Scott Hammer of Harvard Medical School, speaking this week at the 11th International Conference on Aids in Vancouver, Can-

At the start of 1996, clinical trials on "combination therapy" had just started. Hopes for success were tempered by the knowledge that when Alds drugs were taken singly the effect was modest at best.

The results of the combination trials showed that the levels of HIV in the blood could fall by more than 99 per cent, below detectable levels in most cases, within a few months. Longer-term trial results, which

will confirm the power of combination therapy, are to be published today. The implications of the phetalking point of the conference. Has Aids effectively been cured? Will HIV re-appear over the long term? The jury is still out, but much is being learned from the way in which the drug combination appears to catch the virus off-guard. The Aids virus works by invading

cells - called CD4 - of the immune system. It weaves its genetic material into that of the cell, forcing the cell to make copies of the virus and eventually killing it. The new viruses invade other CD4 cells but at the same time the body is growing new CD4 cells. The HIV carrier can remain healthy for many years before the equilibrium tips in favour of the virus and the immune

The first Aids drugs such as AZT, made by Glaxo Wellcome of the UK, worked by interfering with an enzyme, called reverse transcriptase, which plays a role in the weaving-in process. In recent months new reverse transcriptase inhibitors with fewer side-effects than the earlier drugs have been approved by regulators. They include Glaxo Wellcome's 3TC and Boehringer Ingelheim's Viramune.

But the new drugs that have led to the excitement about combination therapy work differently. They block another enzyme, protease, which acts in the construction of new viruses by the CD4 cell. A typical triple-combination therapy involves AZT, 3TC and one of the protease inhibitors. There are three protease inhibitors approved by reg-ulators: indinavir (Crixivan) from Merck, ritonavir (Norvir) from Abbott Laboratories, and saquinavir

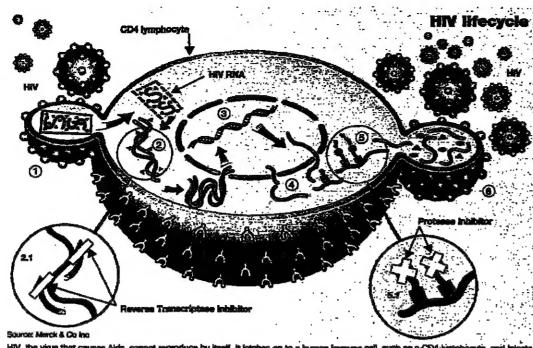
(invirase) from Roche. Why should the mixture be so much more effective than any component on its own? Patients who take just 3TC provide a striking clue to the puzzle. All Aids drugs

Telephone: 353-1 676 2266

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Many HIV researchers believe that mixing drugs could be the next treatment breakthrough, says Daniel Green

Aids-beating combination



HIV, the virus that causes Alds, cannot reproduce by itself, it latches on to a human immune cell, such as a CD4 lymphocyte, and inj its genetic material (RNA) into the cell's cytoplasm (step 1). The RNA is transcribed into DNA by HIV's leavener transcriptuse enzyme (2) reverse transcriptuse inhibitors such as AZT block this step (2.1). Then the DNA is integrated into the bost cell's chromosome and transcribed back into FINA (3); this may occur rapidly or may follow a domant period. The RINA is translated into long protein chains and enzymes (4). The enzyme protesse cuts the protein chains so that the components of new virus particles can be assemb Inhibitors such as Mercic's indinavir act at this stage (5.1). Finally, completed HIV particles but off to infect new cells (6).

strains that are resistant to the drug. With protease inhibitors, the process normally takes many months. But with 3TC, resistance appears far faster, usually within weeks. In combination therapy, the strains that are better at resisting 3TC are worse at resisting the other drugs in the cocktail.

In addition, the protease inhibitors slow down the rate of production of new viruses, so that the virus cannot evolve fast enough to overcome multiple attack.

Other evidence suggests that the mechanism of drug resistance lies at the heart of combination therapy. Patients who take low doses of combination therapies respond more modestly than those on the normal dose, as would be expected. But if the dose is later increased to nornot work: the low dose has created resistant strains.

"We must block the infection • The trials are still on scores of early and hard," says Robert Gallo, a co-discoverer of HIV in the mid-1980s. There is a parallel with antibiotics. If a patient does not com-plete a course of antibiotics, enough sistant becteria survive and multiply, and a second course of the same antibiotic is far less effective. However, many issues will have to be resolved before triple thera-

heartedly as a potential cure for The regimen is difficult to follow, involving dozens of capsules taken at various times. Side-effects, though less than with AZT alone, can include nausea and kidney

pies can be embraced whole-

stimulate HIV to mutate into mal levels, the combination does • Even if the virus is eliminated the immune system may be permanently damaged.

> people rather than thousands. There is no evidence yet on how effective combination therapy is for HIV carriers who have not devel-oped Aids. AZT was once proposed as a drug for all HIV carriers irrespective of whether they had developed Aids. Big trials showed this treatment did not necessarily work. • The timescales for trials have been less than a year in most cases. HIV may simply take a long time to develop resistance to drug cocktalls that will show up after two or three

 HIV is a very variable virus, with at least 10 important sub-types and countless minor strains. Triple therapies have not been tested against many of these variants.

Richard Parker, chairman of the department of health policy at the State University of Rio de Janeiro in Brazil, called for social revolution in countries whose customs prevented some groups from taking protective steps such as using con-

The conference is crammed with poster sessions and satellite sympo-sla unrelated to combination therapy. They discuss everything from treating Aids-associated disea whether aspirin might work and the role of complementary medicine.

Two approaches stand out. The first is vaccines, favoured especially by developing countries whose medical infrastructures can cope with mass vaccination. Vaccines are designed to alert the body's immune system to recognise and attack invaders. Most vaccines are weakened or dead examples of the invad-

ing organism. New techniques aim to isolate the part of the HIV that should trigger an immune response. But the rela-tionship between HIV and the immune system has so far proved too complicated for vaccine researchers, who are pessimistic about the prospects of a good HIV vaccine becoming available for sev-

eral years. The second approach - the latest red-hot topic, according to the US journal Science - is based on a find-ing by Gallo and colleagues at the University of Maryland. They looked at how HIV attaches itself to the CD4 cell, a mechanism which had apparently been understood for years. Gallo's team found a second mechanism, involving a group of naturally occurring proteins called beta-chemokines. The exciting aspect of the beta-chemokine dis covery is that some people who appear to be naturally immune to HIV have high levels of beta-chemo-

The implication is that the natural proteins somehow squeeze out HIV, preventing the virus from attaching itself to CD4 cells. The potential for a new treatment is enormous, and as beta-chemokines occur naturally, there should be no

Researchers now believe that there are several more chemicals like beta-chemokines that act as molecular gateways for HIV. Gallo told an overflowing confer-

ence hall that at past conferences he had arred on the side of optimism. Now that genuine progress was being made for the first time in years he preferred "to err on the side of caution". His resolve did not last. He completed his presentation by saying: "It is my hope and belief that in the near future people will not die of this virus but will live with the virus in check". That statement, too, would have been unthinkable a few months ago.

Worth Watching · Vanessa Houlder



Brain clue to appetite control

A new insight into how the brain regulates appetite could help develop treatments for obesity and other eating disorders, according to a report in today's

Researchers at Synaptic Pharmaceutical Corporation in New Jersey and Ciba in Switzerland believe they have found the "feeding receptor molecular switch that stimulates appetite when it is activated by

certain neuropeptides.
Laboratory tests showed that
the receptor – known as the Y5 –
could be activated by peptides
that increase food intake in rats. Synaptic and Ciba, which have been collaborating on research for the treatment of obesity and ssociated cardiovascular disea believe that drugs acting directly on the receptor could offer new treatments for obesity. Synaptic Pharmaceutical: US, tel

Faster access to the internet

201 2611331; fax 201 2610623.

Gaining access to the Internet can be frustratingly slow. conventional modems offer data speeds of 28.8 kilobits per second and even high-speed digital versions usually offer just 64 kilobits per second.

Ericsson, of Sweden, has developed a system for copper networks that will allow people to access the internet at 512 kilobits per second. The system, known as a Cobra World Wide Web transmission system, is based on ADSL (asymmetric digital subscriber line) techno

It uses a device that splits a standard telephone line into two channels, one of which – the low-band – is used for voice unamication, while the other the high-band - is used to transmit data. Ericsson, Streden: tei

46705767007; fax 4687194386.

Urine test for bladder cancer

A simple urine test for bladder

cancer was approved by the US Food & Drug Administration this week, writes Victoria Griffith.
The test, developed by the biotechnology group Matritech, is the first to use markers called nuclear matrix proteins. These are cell skeletons discharged from the body once the cells die. The skeletons are thought to differ from those of normal cells in a large number of cancers – perhaps all. Matritech is also working on nuclear matrix protein-based blood tests for colorectal, prostate, cervical and

The new urine test - expected to cost about \$50 - is an easy and inexpensive way of testing patients for bladder cancer. A cystoscopy – a painful procedure which runs an instrument through the urethra – is the only other option available today and costs about \$300. Matritech: US, tel 617 9280820; fax 617 9280821.

Let a computer read the map

Arguments over map-reading could become unnecessary with the development of ever more sophisticated car navigation

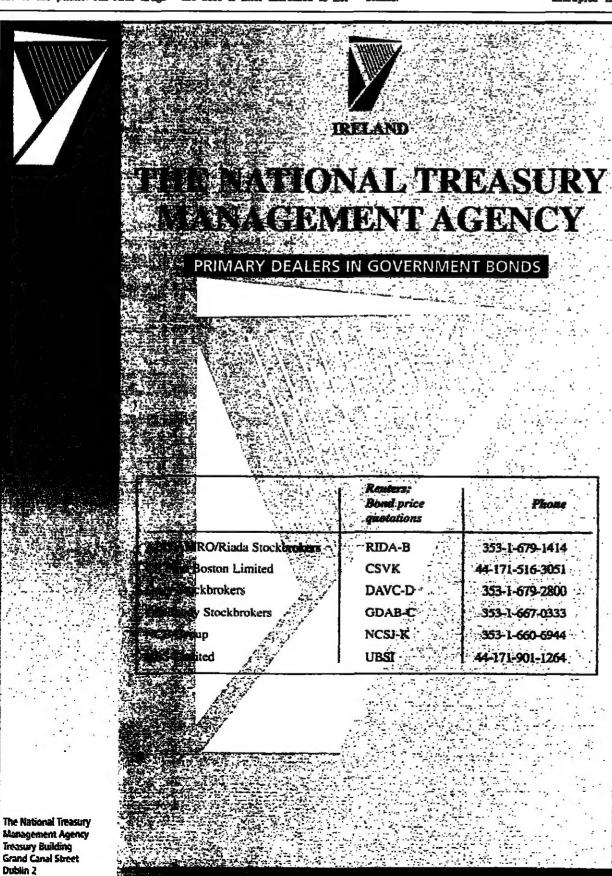
Robert Bosch, the motor components group, has just launched in the UK a retro-fit version of a system that navigates using CD-Roms, sensors and GPS (global positioning system) ignals. The system, called TravelPilot, has an on-board computer that interprets information on speed and direction supplied by magnetic

wheel sensors and a compass. When the driver selects the destination, the system calculates the route and displays it on a dashboard-mounted LCD monitor. The system also gives audible

The system, which costs £3,499 plus a £500 fitting charge, can only be used within the M25 (the London area) at present, but coverage will be extended across the UK by the end of next year. TravelPilot CD-Roms are also available for Switzerland and

MINTERDAY

Robert Bosch: UK, tel (0)1895 834466, fax (0)1895 83836L



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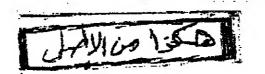
IN IRELAND BY

IBM

ON 25 JUNE 1996 IBM ANNOUNCED THAT IT WOULD ESTABLISH A DEDICATED 750 PERSON CUSTOMER SUPPORT CENTRE IN DUBLIN TO SUPPORT ITS GLOBAL CUSTOMERS. THE COMBINATION OF YOUNG GRADUATES, MULTI-LINGUAL SKILLS, TELECOMS INFRASTRUCTURE AND COMPETITIVE COST ENVIRONMENT WON THE INVESTMENT FOR IRELAND.



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groups. Just as the French begin to recover from Disneyland, they get The Hunchback Of Notre Dame. This is the same kind of animal, albeit of a different colour. Not so much a white ele-phant, more an all-singing. all-dancing pachyderm in shades of russet, pink and oldeworlde gold.

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Disney's 34th animated feature begins so promisingly. The aerial camera swoops over the Gallic houses, with their gothic towers and armadillo til-ing, while Paul Kandel's voice belts out the rousing opener,
"The Bells of Notre Dame". We feel a little airsick, but it is nothing to the sickness to come.

This early, we sense that Victor Hugo might have given his approval to the steepling views of Paris squares and to the film's equally vertiginous villain: the tall, lean, sepul-chre-toned Judge Frollo, defity voiced in speech and song by Tony Jay. But he would have withdrawn all blessing at the first sight and sound of Quasi-modo. Expectable and the Gen modo, Esmeralda and the Gar-

These sound like a rock group and pretty much behave like one. She is a gypsy with a voice like a sexy plumbing accident: it sounds like - it is -Demi Moore. He is a bad artist's impression of Charles

ultural crises Laughton with a "Gee, golly" always come in American voice (Tom Hulce). And the Gargoyles are the "comic" relief, a trio of stone faces brought to life complete with bouncy stone torsos. They could be three amoutees trying

to liven up a hospital party.

Once the plot gets going, the miscalculations multiply. The songs sound like poor relations of Les Mis, another renowned Hugo singalong. The images veer between repetitive virtuosity (so much computer-aided scaring and swooping) and stri-dent grand guignol. And Frollo apart, the best character is Esmeralda's goat - we kid you not - a bearded, lollopy charmer who is thrown away in a few visual asides.

The Cable Guy, vilified by

many American critics, proves a blessed relief. Jim Carrey may resemble a quarter-back more than a hunchback, but he can swing from the movie masoury with the best of them. Here his manic cable installer befriends, or more exactly socially terrorises, mild-mannered yupple Matthew Broderick. No sooner has Carrey plugged Broderick in to the delights of umpteen-channel viewing than he tries to hotwire their relationship with gifts, phone calls and nights out at ghastly mock-medieval

This is Fatal Attraction without the sex. Or perhaps the sex is there but hidden. Carrey's obsession is explained only by

THE HUNCHBACK OF NOTRE DAME Gary Trousdale and Kirk Wise

THE CABLE GUY Ben Stiller

THE CELLULOID CLOSET Rob Epstein and Jeffrey Friedman

> KINGPIN Peter Farrelly and **Bobby Farrelly**

FEAST OF JULY Christopher Menaul

THE TIT AND THE MOON Bigas Luna

a brief, perfunctory back-story - as a child he longed for a younger brother - but then it really needs no explanation. It is enough to note this man's skewed expressions, elaborate hisp, eyes like twin tunnelling drills and cryptic body lan-guage to realise that he is a force of natural insanity, like Norman Bates or Jerry Lewis. At \$20m a role, Carrey is the highest paid comedy star in movie history. But what should

each facial reaction, each line-reading into a vandeville routine? It is not just the elasticity, it is the timing. When Broderick, troubled by his new friend's unacknowledged speech defect, says gently "My brother is a speech therapist", Carrey replies with a slow, per-fect, faintly hostile incomprehension, "Tho?" And when the after-meal jousting begins at the restaurant – but no, there are some moments you should savour for yourselves.

The Celluloid Closet is a history of homosexuality in Hollywood cinema. Film-makers Rob Epstein and Jeffrey Friedman, adapting the 1981 book by gay film critic Vito Russo, peer into the shadowy cupboard space of American movies to see how, when and in what guises homosexual characters were allowed to show, or half-show,

Mostly it is the usual suspects. The non-denominational sizey (Edward Everett Horton); the cross-dresser (Dietrich in Morocco, Curtis and Lemmon in Some Like It Hot); the mixed-up kid (Sal Mineo in Rebel Without A Cause); the man or woman with a Fright-ful Unexplained Secret (Clift in Suddenly Last Summer, MacLaine in The Children's Hour).

Funny and informative, the film rounds up its own racon-teurs, including Armistead

Schlesinger and Miss MacLaine, And Gore Vidal tells tales out of school about the homosexual subtext he wrote into one scene of Ben-Hur in an interview that has had Charlton Heston raging across America about revisionist gay screenwriters. (With ene-mies like that, who needs friends?) Between the experts come

the excerpts, rendered cherishable by time. In Gentlemen Prefer Blondes Jane Russell's dance in the shipboard gym, with self-absorbed Adonises somersaulting all around her is a riot of pre-Village People kitsch. And Rock Hudson "pretending" to be gay in order to get close to Doris Day in Lover Come Back has so many ironies that it is like gazing into a hall of mirrors.

There are notable omissions.

Where is Clifton Laura Webb, wit, savant and misogynist? Where is Louise Brooks, swooningly androgynous in hoy's clothes in Beggars Of Life? And never mind actors, what about the directors? The film seems not even to notice the monstrous frony that one of its hand-picked films The Boys in The Band - virtually the first to show gay men openly living and interacting -was directed by the same man, William Friedkin, who perpetrated Cruising, rightly picked out as the great homophobic trendsetter of modern genre



Quasimodo in Disney's misjudged version of "The Hunchback of Notre Dame"

cinema. Surely worth a quizzical aside?

The rest of the week is barely worth that. Pins are what you should stick into yourself during Kingpin if you wish to stay awake - but then why should you? - during this lacklustre comedy about bowling. Woody Harrelson and Randy Quaid wander the West seeking whom they may con. Woody is a bowling alley hustier with an iron hook for a hand. Randy is an Amish in a blonde Shirley Temple hairdo. Why the hook? Why the

hairdo? Why not, Something has to amuse us during the longueurs between the guest vignettes by Bill Murray, who

cleans up the film every time he appears as a fright-wigged fellow hustler effervescing with mean one-liners.

Feast Of July takes us deep into Merchant-Ivory country and leaves us there, without food, money or the means to get home. This is an H.E. Rates-based tale of an adopted girl (Embeth Davidtz of Schin-dler's List) who, after miscarrying an illegitimate child, throws herself on a family's mercy in late-Victorian provincial England.

Three brothers vie for her love, while she, they and the parents (Tom Bell, Gemma Jones) gloom through the post-Industrial Revolution murk. The purling rivers, lamplit streets and cobblestones all have more vitality than the cast or direction, which both seem struck down by a bad case of Literary Respect.
At least Spain's The Tit And

The Moon, directed by Jamon Jamon's Bigas Luna, is equipped with the eye-pleasing items of the title. The moon gleams down on nine-year-old Tete (Biel Duran), who bends his own gleaming face to the gorgeous gypsy girl (Mathilda May) whom he spies on daily turn owns the shiny mammary objects coveted by him and his teenage brother. Farouche, Fellini-esque; quite funny.

Theatre/Alastair Macaulay

A very British 'Uncle Vanya'

Chekhovian if it is not full of contradictions. A says "The world is getting worse and worse", B says "In two or three hundred years' time, human existence will be wonderful", C says "My whole life is meaningless", D says "I'll make the tea." Sometimes it is the same person who utters self-contradictions or inconsistencies. Is life futile? or useful? In Chekhov, both. But there is no contradiction. no conflict, no urgency, in the Directed by Bill Bryden and cast from strength with Derek Jacobi, Trevor Eve, Alec McCowen, Frances Barber, Imogen Stubbs, Peggy Mount and Constance Cummings, it is passive, polished, tepid, insincere. It is not, in any serious way, Chekhovian. More important, it is not interesting.

The most disturbing thing

that happens in the whole stag-ing is when Barber, as Sonya, huris down a trayful of medicines at her hypochondriac father, Serebryakov (McCowen). And Barber though some of her performance is unsuccessful - seems to be the only actor in the cast interested in reconceiving the character she plays. Peggy Mount, as the old nanny, reconceives nothing; but she illumines every little scene she plays with her sheer humanity. The edge of cheerfulness with which she says "They've gone!" in the closing scene is beautifully funny, one of several moments in which she refreshes a staging that keeps growing stale about her. Cum-

mings is charmingly simple and dignified in her tiny role as Vanya's mother.

There is little humanity or sincerity to be found elsewhere. There is, however, a great deal of acting. Mellow, skilled, charming acting, much of it, often intelligent, often sensitive. But futile, so that the futility of life that Chekhov tries sometimes to suggest turns here to mere torpor. All the big climaxes of the play -Vanya (Jacobi) and Astrov (Eve) being drunk together at Astrov is kissing Yelena, the woman he himself adores (Stubbs), Vanya trying to shoot his ex-brother-in-law Serebryakov (McCowen) - dissolve in this production into mere actmoments of energetic talk -Astrov enthusing about trees, Yelena admitting to herself that she is attracted to Astrov. Vanya exploding about how he has wasted his entire life - ebb away into pretty assemblies of actoriy effects.

Listening to the fruity pyrotechnics of Jacobi and McCowen is like going to to a "Three Tenors" concert. Their burnished tone formation and sculpted vowels are always a treat, of course, and no sooner does Jacobi here build his biggest scene up to a few splendid top notes and departs, than McCowen promptly hits some yet higher and yet louder notes: And, to these older but more technically accomplished guys, Trevor Eve is happy to play Carreras: he switches on the intensity, the charm, the ardour, the moodiness in seam-



Much acting, little humanity: Trevor Eve and Imogen Stubbs

less virtuoso ares, none of which ring true for a moment. Stubbs, alas, really does not belong on the same stage as these clever old thesps. No doubt she means to show that Yelena is a superficial and silly woman, but she does so with so much superficial and silly

grows quite confused. Barber, whose account of Sonya as inhibited and schoolgirly has its bold moments, unfortunately takes a few leaves out of Stubbs's book as the play

develops.

Bryden's production epitomises all that is worst in British Chekhov. Not so much eleacting of her own that one

giac as stagnant; mixing artful bel conto with a lieder recital; and now and then a few uncon vincing noises off. The amplified scratching of a pen in the closing scene reminded me of

Minerva Theatre, Chichester, until July 27.

Ballet/Clement Crisp

Rambert ascending about six men in fortified beige

ate of Dame Marie Rambert: "She's up there on her cloud feeling very happy tonight". "Yes", came the reply, "and busy counting the bouse". For there was her company, now Rambert Dance but still hers in spirit, taking the Coliseum by storm, filling the stage with a sumburst of dancing. This week's season shows the troupe dancing better than ever before in my experience – which goes back to Ballet Rambert's days on the 18-foot-square stage of the Mercury Theatre in Notting Hill

All honour to Christopher Bruce for having inspired the ensemble which he now directs to this level of excellence. I can even forgive the patronising subtitle for this venture as "The People's Season", which equates the laudable price limit of £20 for a seat with some illusory crowd of proles who do not, or will not, pay more for dance. "The people will go to dancing if it is well presented: it is a tragedy for all forms of dance in this country now that marketing is feeble, off-putting. This season has been well-sold, but it deserves success for artistic rather than pricing reasons.

The opening of the first programme on Tuesday night was, though, calculated to send music-lovers screaming into the night. It was no less calculated to send dance-lovers towards the nearest exit. Rambert has a fine orchestra in Mark Stephenson's London Musici, and to find Mozart and Bach degraded by fatuous choreography is bad news. Jiri Kylian's Petite mort - a euphemism for orgasm - is

knickers who are armed with foils. (Ah, the subtle imagery.) Six girls, hidden behind ambulant cut-outs of dresses but also daintily attired in underwear, join them. The men strut, the girls are manhandled, and Kylian's musical sensitivity - akin to Jack the Rip-per's feeling for petit-point sets them grappling to two slow movements from Mozart piano concerti (including, inev-itably, that known to "the people" from Elvira Madigan). The piece is typical of Kylian's turgid, gymnastic manner. It is sensationally done by Rambert's artists, who take to the native heath.

orsa follows.

Axioma 7 is a clunker from Ohad Naharin, who dresses 19 dancers like waiters at Le Pansy Café, seats them on chairs, makes them take their clothes off and rampage pointlessly, while Mark Stephenson's musicians play Bach's fourth Brandenburg concerto in fine style. In a moment of silence a couple of chaps show us that it takes two to tangle. The Rambert dancers are superb, but they would be better employed throwing rocks at Mr Naharin than rushing about in this foolish exercise.

Order was restored with another serious score, again well performed. Robert Cohan's realisation of Vivaldi's Stabat Mater is a luminous work for eight women who surround the lovely Sara Matthews, whom we identify with the Blessed Virgin. Cohan's chorography is absolutely sure

means: it is reminiscent of a Martha Graham piece from the 1930s. Given with a serene purity of style by its cast, it has quietness of spirit, and is to be treasured because of this. and because of the women's sensitivity. This first programme ends

with Bruce's affirmation of faith in international amity the brave Meeting Point he made for last year's San Francisco shindig to celebrate 50 years of the United Nations. Much of what was on show as dance on that occasion deserved rigorous sanctions. Bruce's dances, with their Coliseum stage as to their amused nod at The Green Table, reminded audiences of the virtues of well-made choreography and of gifted and dedicated dancers. The piece looks splendid on the Coliseum stage, and it is danced with tremendous verve. The score, a saxophone concerto by Michael Nyman, is redeemed by the dazzling playing of Gerard McChrystal.

The evening ended, as it should, in cheers and more cheers. Seventy years after Marie Rambert took her first little group of students - they included young Fred Ashton to dance in a revue in Hammersmith, and after Himalayan ups and downs of fortune, Rambert Dance has climbed Everest and proudly placed its flag on the summit. Cheers for them. And cheers, too, for Granada Group, who have sponsored this season.

The Rambert season continues this week. Additional sponsorthip by The Quercus Trust, Mr & Mrs George Loudon, and

INTERNATIONAL

AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-5730573 Maria João Pires, Augustin Dumay and Jian Wang: the planist, violinist and cellist perform works by Schubert; 8.15pm; Jul 14 EXHIBITION Stedelijk Museum Tel:

 Cobra en het Stedelijk: exhibition of paintings and sculptures from the museum's collection by participants of the international art group CoBrA. The works on display, approximately 150, span the period from 1948 to 1962, included in the exhibition are 17 works by Comeille that were donated to the museum by the artist last year; from Jul 12 to Sep 15

ANTWERP

OPERA De Visamse Opera Tel: 32-3-2336808 La Fanciulia del West. by Puccini. Conducted by Silvio Varviso and

performed by De Visamse Opera. Soloists include Stephanie Friede, William Stone and Richard Margison; 8pm; Jul 12

BAD KISSINGEN CONCERT

MusikFestival Tel: 49-971-807110 Münchner Rundfunkorchester. conductor Fablo Luisi, soprano Christiane Oelze, alto Jochen Kowalski and baritone Boje Skovhus perform excerpts from Die Lustige Witwe and Die Fledermaus; 8pm;

DUBLIN

CONCERT National Concert Hall - Geoláras Nálejúnta

Tel: 353-1-6711888 The Irish Chamber Orchestra: with conductor/viola-player Bruno Giuranna and violinist Franco Guill perform works by Mozart and Britten; 6.30pm;

ESSEN

EXHIBITION Design Zentrum Nordrhein Westfalen Tel: 49-201-8202118 Design-Innovationen '96: exhibition showing a selection of works competing for this year's international industrial design award;

GHENT

EXHIBITION Museum your Sierkunat on

 Jan Eisenloeffel. Art Nouveau-gebrufksgoed in zilver, email en goud: retrospective exhibition devoted to the work of the Dutch decorative artist, gold and silversmith Jan Eisenbeffel. The display features some 200 objects, including coffee- and tea-sets, dishes, jewellery, clocks, lamps and cuttery; to Sep 15

GRAZ

CONCERT Styriarte Graz Tel: 43-316-70313835 Hesperion XX: with conductor Jordi Savall and soprano Montserrat Figueras perform music from "El Siglo de Oro", the golden age of Spanish music which coincided with the discovery and conquest of America; 8pm; Jul 13

HOUSTON EXHIBITION

The Menil Collection Tel: 1-713-525-9400 Georges Rouault exhibition of works by Georges Rouault (1871-1958) including 75 paintings, works on paper, and objects drawn primarily from The Menii Collection holdings; to Aug 18

LAUSANNE

ECHIBITION Fondation de Hermitage Tel: 41-21-3205001 Armand Guillaumin 1841-1927. Un meltre de l'Impressionisme trançais: retrospective exhibition devoted to the work of the French

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Impressionist Armand Guillaumin. The display includes more than 150 paintings, drawings, pastels and engravings from public and private collections in Europe and the United States; from Jul 12 to Oct 20

LONDON CONCERT

Wigmore Hall Tel: 44-171-9352141 Florilegium: and cellist Pieter Wispelwey perform works by Ame, Storace, Haydn and J.C.Bach; 7.30pm; Jul 12 National Portreit Gallery Tel: 44-171-3060055 John Deakin – Photographs: retrospective of the photographic work of John Dealin (1912-1972). The exhibition comprises more than 100 black and white prints with emphasis on Deakin's portrait work. Also included are his fashion and urban landscapes as well as a selection of the photographs taken for Francis Bacon to work from; to

Tate Gallery Tel: 44-171-8878000 Still But Not Silent: this exhibition brings together still life paintings and sculptures from the Tate Gallery's collection by British and foreign artists. The works range in date from the late 17th century to the present day; to Jul 14

THEATRE Barbican Theatre Tel: 44-171-6384141 Romeo and Juliet: by 1: Shekespeare. Directed by Adrian Noble and performed by the Royal Shakespeare Company. The cast

includes Christopher Benjamin, Susan Brown, Julian Glover and Michael Gould; 7.15pm; Jul 12, 13 (also 2pm), 15, 16 (also 2pm)

LOS ANGELES CONCERT

Hollywood Bowl Tel: 1-213-850-2000 Hollywood Bowl Orchestra: with conductor John Mauceri, vocalists Jodi Benson, Loma Luft and Harry Groener, pianist Leon Bates and The Mitch Hanlon Singers perform Gershwin's Rhapsody in Blue, selections from Girl Crazy and I Got Rythm; 8.30pm; Jul 12, 13, 14

(7.30pm) Huntington Library, Art Collection and Botanical Gardens Tel: 1-818-405-2100

 Landmark in Printing Collecting: Masterpleces from the British Museum: the first exhibition of 100 prints selected exclusively from the British Museum's collection to travel to the United States. The show features works spanning the history of western printmaking from rare 15th century German woodcuts to American etchings and lithographs of the 20th century; from Jul 12 to Sep 29

NEW YORK

Organ (India) Frank Link
- Mail Acid 5

CONCERT Avery Fisher Hall Tel: 1-212-875-5030 Mostly Mozert Feetival Orchestra; with conductor Claus Peter Flor, pianist Horacio Gutiérrez and violinist Pamela Frank perform works by Mozert and Schubert. Part of the

Mostly Mozart Festival; 8pm; Jul 12, 13

EQUIBITION International Center of

Photography Tel: 1-212-860-1777 Landscapes of the Civil War. Newly Discovered Photographs from the Medford Historical Society: assembled from more than 5,000 Civil War original albumen prints in the collection of the Medford Historical Society, this exhibition of close to one hundred prints provides an opportunity to survey examples of Civil War photographic reportage.

The prints on display are in unusually fine condition for works of this period, as they were seldom handled or exposed to light before their rediscovery in 1990. The exhibition presents the work of photographers such as Alexander Gardner, George N. Barnard, A.J. Russell and Thomas C. Roche as well as the work of many unknown photographers; from Jul 12 to Nov 10

ZURICH OPERA

Opernhaus Zürich Tel: 41-1-268 6666 Il Matrimonio Segreto: by Cimarosa. Conducted by Adam Fischer and performed by the Oper Zürich, Soloists include Malin Hartelius, Isabel Rey, Stefania Kaluza and Anton Scharinger, 7pm;

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Peter Martin

The spirit of temptation

Big drinks companies are being urged by impatient shareholders to improve earnings, but Guinness and others are finding it hard to expand in new markets

worrying all the same.

are open to manipulation and

demography is favourable.

After all, such markets have transformed the outlook for

the tobacco industry in the

past decade, and tobacco com-

panies were faced with much

more adverse shifts of develop-

ed-country habits than any-

thing the spirits industry has

had to cope with Yet these markets are also the home of the biggest gap in

the spirits industry's global

One way of looking at the bers of the world's interna-Guinness story is to see it as a fable of Virtue Resisting consumer goods exporter by a erating pre-tax profits equivalent to nearly 20 per cent of sales, is under pressure from those perennial moaners, the Almost overnight, the indusshareholders. The company is going sideways, they com-

plain: earnings per share are below the level of five years Casting around for a Big Idea to get the shareholders off their backs, Guinness's directors think the unthinkable - what about a takeover bid for the biggest UK-based rival, Grand Metropolitan? Ever-heinful, the merchant bankers prepare reams of fea-To get the full flavour of the

fable, you should picture the a Tiepolo, a symphony of pinks and light blues. The Guinness board, upright citizens to a man, is recoiling in horror at the gaudy image of Temptation, a lady with an alltoo-obvious past. Pushing her forward are a group of well-dressed attendants who have clearly profited from similar transactions many times before: lurking in the background is the lady's former consort, a titled gentleman of

retiring aspect.

To sketch the picture is to know the outcome: Guinness's directors resisted the temptation. It would be churlish to suggest they might have been swayed by the thought that picking a fight with Grand Met is only one degree safer than tangling with Tiny Rowland in his prime. No, put the decision down to pure highmindedness, a suddenly rediscovered commitment to the words of the chairman's statement published only a few months before. "Our business is about growing brands of alcoholic drinks around the world," wrote Tony Greener then. "That strategy is essentially an organic one. Easier said than done, alas.

Guinness, like the other mem-

tional spirits league, must cope with a number of difficult issues. The biggest one as the latest shareholder rumblings suggest - is the burden of exaggerated expectations built up by the industry's astonishing success in the late

try transformed its economic structure, moving from a busi-ness model in which the distillers handed over most of their profit to their fiercely independent importers and wholesalers to one in which they owned their own distribution networks. Not only did they keep much more of the value added, they were able to market their products effec-tively as global consumer brands, in a way the old fragmented distribution pattern had prevented.

This one-off shift in profitability coincided with another unrepeatable event - the hubble of prosperity and confifleeting public moods have particular significance for the manufacturers of luxury goods and premium brands: they encourage consumers to believe that only the best is good enough, and only the most expensive is the

In such an atmosphere, it was easy for the distillers to think that higher prices would compensate them for the shift in taste away from brown spirits such as whisky and brandy. At the very least, they could hope that consumers who drank less would drink better, moving up-market towards more expensive

If that was ever true, it required more in the way of advertising expenditure than the spirits companies were willing or - given the scale of hostility to drinks advertising in many developed countries able to spend. As might have been predicted, volumes have suffered throughout the 1990s. According to the industry newsletter Impact International, Guinness's spirits vol-umes have fallen at an average annual compound rate of 0.9 per cent since 1990, Allied Domecq's by 1.5 per cent. Grand Met's are flat. The top 10 brands are down by 1.1 per cent a year over the period. But the anticipated offsetting gains in margins have been slow to materialise. Guinness's operating profits on spirits have dropped back from over 30 per cent of sales in 1990 to around 26 per cent -

slightly higher than in 1994

achievement. Merely to read down Impact's list of the world's top brands is to get a of the list is Stolichnaya vodka, which sells 60m nine litre cases worldwide, 58.3m of them in Russia. That's not so surprising, you say. But guess what comes next? It is Jinro Soiu, a white spirit from Korea, which sells 43m cases, up 6 per cent from the year before. Next comes another Russian domestic-market vodka, Moskovoskaya, and after that another drink you have probably never heard of Pirassununge 51, an aguar-dente from Industrias Muller de Bebidas of Brazil. And fifth comes Ginebra San Miguel, a gin from the Philippines, with

Here is the issue: as these countries grow rapidly in wealth and consumer sop cation their citizens are drinking a bit more of the west's premium products. But they are drinking a *lot* more of their local brews, and each year the marketing affort

24m cases, up 17 per cent from

the year before.

the mid-1980s, but the trend is behind them gets smarter. The global spirits companies have Still, the industry is highly made no real inroads into these traditional markets. Not profitable, with enviable brands and a much stronger surprisingly, perhaps: such products sell at prices well global distribution system. In that respect it has survived selow those of the premium the difficult early 1990s in good shape. As the Guinness international brands and ownership of local distillers is board's ponderings make tightly held. But unless they clear, the problem is not so enter these markets, the big companies may find that much how to cope with past bad times as how to ensure continued growth now things are better. The industry's much of the growth of the emerging economies escapes them. There was a worrying future clearly lies in emerging signal last year when growth of the international brands slowed in many emerging markets where tastes are not yet fully formed, brand images

> from the global distillers, alco hol is not like other branded consumer goods: it is inti-mately related with social ritgal in many countries. To succeed in launching an imported brand is to tap into a country's central myths. As societies gain in affluence and confi dence, they are - not surprisingly - more choosy about the myths they are pre-pared to subscribe to, a trend which partly offsets the homo-genising effects of global cul-

economies, but sales of local

brands continued to rise ran

The big spirits companies face a difficult choice. If they restrict themselves to the pre-mium global brands they have successfully exploited so far they face a future of frustrated growth expectations and an ever-present temptation to merge in order to cut costs. But at least they will be operating in familiar territory, manipulating the social rituals and cultural iconography of the north Atlantic. If they try to break into the parts of the market where growth is strongest, they face a frustrating time: haggling to buy local brands, dealing with pricing, costs and cultural frames of reference with which they have no instinctive sympathy. Rejecting temptation, as the Guinness board will discover. yields at most a brief glow of virtue before the dilemma returns, just as strongly as

BOOK REVIEW Carlstopher Parkes

EAST TO AMERICA: Korean-American Life Stories Edited by Elaine H. Kim and Eui-Young Yu The New Press, 386pp, \$25

Voices from the killing fields of Los Angeles

most enduring images of the Los Angeles-riots in 1992 were the flickering silhouettes of armed Korean shopkeepers, raging and incoherent, against a backdrop of fire. Videotape of the catastrophe rolls endlessly in the LA Museum of Tolerance, showing looting whites, blacks,

like rats and laughing.
In this book's mournful collection of reminiscences, the small voices of Korean Americans caught in the eye of storm they know as sa-i-gu (April 29, the day the riots started) emerge fractured and sad from the debris.

Latinos and Asians scampering

Inspired by events caricatured as a revenge-taking by blacks on grasping Asian shop-keepers, the book is an attempt to represent ordinary lives "so often effaced, transmuted or covered up" by history. Better still, for most readers,

it is an illuminating introduction into an enclosed, strug-gling ethnic community, scraping for a toehold on America's western seaboard.

The book's vigour lies in reflections on the trials and occasional triumphs colouring ordinary lives lived in extraordinary circumstances. They concern people born in Korea

and brought up in the US. Unlike the uniformly inarticulate howlings of the shopkeepers broadcast as the mobs torched their livelihoods, the voices here are varied: bitter, self-critical, resentful, recon-

There is K.W. Lee, for example, who describes LA's Korea-town as a "killing field" for dreams and people. He snorts at the deluded clustering together of Korean immigrants now "trapped" in a ghetto area where "the Jews were burnt opt in 1965".

"We have replaced the Jews in the black American psyche. The intensity of [black] resenting." Koreans have failed to understand or recognise other value systems, he charges. Their aloof attitude - in street culture - amounts to nothing less than "dissing" (showing disrespect), and "dissing" is a failing which can get you killed whether you are Korean or a drug addict.

According to the book's editors, southern California's Korean merchants are still being murdered at a rate of one a month. Their vulnerability stems mainly from the shortage of economic options open to undercapitalised immigrants other than shopkeeping in poor, distressed communities. But Mr Lee's gruff voice, not especially shocking in a com-

munity where the members are routinely fiercely critical of one another, provides more insight Korean Americans, he says, are deeply afflicted by their country of origin's history of wrenching changes wrought by the cultural and territorial ambitions of Japan, China and Russia. Their past is marred by invasion, expatria-tion, "betrayals, frustrations.

self-immolations". The results, according to Mr Lee, include "the absence of our own value system" and an excruciating introversion. The concept of trust, for example, is confined to small, unconditionally-bonded groups.

If breached, the bonds are

transformed into "a grudge that lasts for ever". he says. While such a system may have evolved as a protection against alien oppression in the past, the exclusivity of this intensity seems more of a prison in free-

flowing US society.
"We share the [Judeo-Christian] work ethic, the pursuit of education and the belief in the family, but we don't share the sense of community conscience," he says.

Looking for the roots of cultural conflict is one thing. Explaining the catastrophic consequences to Mr Dong Hwan Ku, an architecture graduate from Seoul, is

Number One Southwalk Rodge Fondon SPL 9HL

days a week. "I am scared every day. I have been beaten cursed and spat upon . . When I finish paying off my debts I hope I can go back to Korea. Mr Ku, not yet 40, is croshed. He is one of the victims

Mr Paul Kim, a police lieuten ant, who advises: "So what if you were a victim? Get in line: there are 100,000 ahead of you." Mr Kim is a hard man, true to his LAPD colours. He has some sympathy for devotion to hard work, but like Mr Lee, he sees "people are really living an oppressed life". Mr Kim. who tangles daily with every ethnic group, believes the oppression results from a lack

derided in a contribution from

of "real sympathy for other people", Korean or otherwise. Mr Tong Sun Lim, a Christian minister, believes the trouble lies with the community's lack of experience rather than any shortage of values or self-confidence. Jews, he notes, have a 300-year history in the US; the Chinese 150 years and the Japanese 100. But Koreans have been present in discernible numbers for only 30 years. In three generations, he

found their place.
Saigu is still widely seen as just another rupture in LA's ragbag social fabric. But this stantial significance for the city and the future of these assiduous, ambitious newcomers on America's Pacific coast. It marks the emergence of a new articulacy and a sense of

common cause In the words of Mr K.W. Lea. the fateful day was a defining moment: "Our Warsaw, our baptism of fire . . . a blessing in disguise. The larger picture will emerge a generation from now. It will become an epic."

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We see keen to encourage letters from residers would like world. Letters may be like to +44 171 573 5938, please set for to fine I small letters edited the ctim. Translation may be available for letters written to the main international bropuspies. EC frustrated in earlier attempt to investigate airline alliances

From Mr Jonathan Faull. Sir, Your editorial "Squalls over the Atlantic" (July 8) considers the European Commission's investigation of transatlantic airline alliances and argues that the Commission should have asked the Council of Ministers long ago for a remit to deal with the specific competition issues

The Commission did just

that, proposing in 1989 that the Council extend the regulations implementing the Treaty of Rome's competition rules to air transport within the EU to routes between the EU and foreign countries.

The Council has not adopted the necessary regulations so the Commission has fallen back on the original treaty article which provides for enforcement of the competition

want of trying to secure a better legal framework that this step, necessary for the competition policy, was taken.

rules, Article 89. It is not for

Jonathan Faull, directorate-general for competition, European Commission,

Even bigger bite by US law on Cuba trade

From Ms Ruth Wedgeood. Sir, In his article "The long arm of American law" (July 8), Stephen Fidler laments the treble damage lawsuits that may soon be looming in US companies trading with Cuba. Unhappy corporate counsel will wish to note another set of teeth in the American boycott

Foreign companies may be liable not only for the profit they make from a transaction (times three), but also for the entire underlying value of any expropriated property used in any way in the transaction. In other words, a European company's arm's-length purchase of one ton of sugar cane from a nationalised farm, or 1,000 pairs of shoes from a factory, could expose it to a recovery amounting to three times the value of the entire

This stems from the Helms-Burton Act's broad definition of "trafficking" in property - to include all commerce "using or otherwise benefiting from confiscated

farm or factory.

property". Though Congress's real target may have been equity stakes, joint ventures, and management of confiscated property - see Section 301(S) - the statute's broom sweeps widely indeed.

Ruth Wedgwood, professor of law, Yale University. Connecticut senior fellow, Council on Foreign Relations. 58 East 68th Street, New York, NY 10021, US

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From Mr Adrian Dunskus. From Mr David De Burgh. Sir, It is unfortunate that Sir, It always amuses us, Richard Vadon, when writing living as we do on the Costa his piece on radio on the Blanca, when we read about the pressure within the UK Internet (Media futures: "A radio Renaissance worldwide". and from the EU for water July 8), did not consult quality to be raised in the UK. Here the water "quality" is Wolfgang Münchau, your excellent Frankfurt non-existent, as is the water correspondent for many days in high summer It would have saved Mr

but the tourists still flock in Vadon from asserting that from northern Europe and Virgin is the only European never complain! radio station broadcasting live I have just tested our tap water today and the nitrate on the Net", which is not true. Bayerischer Rundfunk, one of level is about 50 mg/litre which the biggest members of Germany's Public Radio and (according to my test kit) is double the European Television (ARD), has been recommended safe limit and at or above the danger level, let feeding its all-news programme, B5aktuell, live alone the foul taste and smell into the Net since October. which is present at times.

David De Burgh, Buzon T 509, Calle Ceuta 8, 03724 Moraira,

Processing, allows the user to download the required Streamworks player software, which we chose over RealAudio because Streamworks provides for CD-like reception if the Internet connection is established with ISDN bandwidth. Apart from that, our experience over the past year bears out the assessment of Howard Freeman, quoted in Mr Vadon's article, that Net users are information-driven and therefore flock to sites that provide pure information (like ours does). That said, let me finish by adding that, for me, Media

Adrian Dunskus, Bayerischer Rundfunk Online Task Force Rundfunkplatz 1, 80335 Munich

Futures is a must read every

Monday.

Economically represented

From Dr Eamoun Butler: Sir, As Murray Rothbard in life denied the holocaust, now his posthumous book denies the importance of Adam Smith to economics. The surprise is Michael Prowse ("Dethroning Adam", July 8) gives it so much space. To say that Smith's labour theory of value enabled Mark to concoct his silly "exploitation" ideas is indeed unoriginal. To blast his support of bank regulation or income tax as "bumbling . interventionism" says more about Rothbard than Smith.

Smith's bold critique of trade

restraints made possible the 19th-century era of liberal economics and rising prosperity. His "invisible hand" theme illustrated how societies could evolve in harmony and co-operation without the need for interventionist planning. Yet Smith's path-breaking social analysis does not feature in Rothbard's book. Smith turned economics. from metaphysical musines into an empirical science. In so doing, he rejected some promising but speculative theories by earlier economists. Rothbard mourns these losses, but in fact it was the empirical method he hated. Smith made mistakes, but wilful misrepresentation of his

subject was not one of them. Eamonn Butler, director, Adam Smith Institute, 23 Great Smith Street, London SWIP 3BL, UK

Service adrift

From Mr A. Kevin Porkin. Sir, With cross-channel services which run 24 hours a day apparently suffering cut-throat competition and involved in high-cost advertising campaigns in the press. I recently tried to book a crossing at 11pm. All the companies had either

answering machines or did not .

A. Kevin Parkin, 4 Oak Crest, Bawtry Road, Doncaster DN4 7PJ, UK

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Jobs for the boyos

Flags are waving in the valleys of south Wales and in South Korea for the generosity of British taxpayers. They gave the dowry for a marriage of eastern capitalism and Welsh labour in Newport, a former steel town suffering sadly from unemployment.
The industrial conglomerate, LG

is to invest £1.7bn in an electronics plant, expected to provide more than 6,000 jobs. But the price has been high. The total subsidy, believed to be about £200m, represents a cost of £30,000 per job, far the highest for any such project in the UK and perhaps twice the amount that would have been considered reasonable until recently.

In one sense LG has scooped the pool. The financial inducement which it is being given is nearly equal to the total subsidy dispensed by the UK last year (to April 1996) under Regional Selective Assistance, when 477 inward investment projects were agreed.

Most of the foreign companies

setting up in the UK came without being offered wads of handout. The country's remarkable success in attracting inward investment -1,350 projects, providing 285,000 jobs in the last three years depends more on solid attractions than cash in the hand. Britain's position in the EU, its language, low labour costs and relatively liberal approach to tax and regulations have all carried weight.

A recent study by the Institut der Deutschen Wirtschaft suggested that the ratio of profit to labour costs for new projects

times higher than in Germany itself and 2% times better than in the US. It is not surprising, there fore, that German compani jostling to invest in the UK (58

new projects last year). With such advantages, why does the UK need to pay so much to the Koreans? One answer is that the countries of Europe are engaged in an increasingly competitive subsidy race, from which all will ultimately lose. In the UK, the regional development authorities are competing against each other with similarly self-defeating results, despite a recent rebuke from the Treasury.

The fundamental difficulty in the UK, as in the EU, is that the rules governing state subsidies are chaotic; they derive from many quite unconnected schemes, from theory put together subsidies worth three-quarters of a project's total cost.

Consequently politicians have to judge whether each handout represents a sensible trade-off or inst jobs for the boyos, a secretive choice in which any minister is likely to be fallible. The remedy is much more detailed public guidance from the Treasury, for example on what is a reasonable "cost per job", and less secrecy about the analysis of costs and expected benefits. Above all, there needs to be reform of EU rules on state handouts to make the practice fair to all members, fairer to taxpayers and fair to the companies which

Heavenly peace

their squabbles of recent months. The visit to China by Mr Anthony Lake, President Clinton's national security adviser, has produced general agreement to swap summit meetings next year. Even without any commitment to a firm date or location, that is a transformation from the bickering of the past year. It is certainly to be wel-

Clearly both sides wanted to improve the atmosphere, and no doubt for their own political ressons. Beijing gave Mr Lake a fivestar welcome, including talks with both President Jiang Zemin and Premier Li Peng, when it could have easily trotted out no more than a deputy foreign minister. As for Washington, it is clear the US administration has been involved in a serious reassessment of its relationship with the Chinese leadership, and has decided that it cannot be allowed to stagger from one obstacle to the next.

It is becoming increasingly clear that the most important international relationship in the first decades of the next century will be that between China and the US. But so far, neither side has worked out a reliable framework in which it can be handled. Instead, they have allowed a series of disagreements to escalate into potentially destabilising disputes. First the Chinese became incensed over the private visit of

Then China's aggressive war games in the run-up to the Taiwanese elections prompted Washington to despatch two aircraft carriers to the Taiwan Straits. And twice this year, the US has come close to imposing trade sanctions, for alleged sales of nuclear technology to Pakistan, and for Beijing's failure to clamp down on piracy of US intellectual property

approved a renewal of most favoured nation trading status for its partner, by a comfortable majority. Hence the present opportunity to make amends. The worrying thing for the res

bilateral relationship in the Talwan is a permanent source of friction, and will remain so until almost certainly, produce new causes for confrontation, whether over human rights, or merely avi-

Next year's summits must be

Beijing and Washington have to the US, and suspended talks in decided, belatedly, to patch up a series of bilateral committees.

Those disputes are now out of the way, and the US Congress has

of the world is that there will be a host of similar hiccups in the months and years to come. its status is finally resolved. The return of Hong Kong to Chinese sovereignty next year will also,

used by both Beijing and Washington to create a reliable framework within which they can resolve and contain such disputes. A relation-ship so critical for the maintenance of world peace and stability cannot be allowed to stumble from



Rush for the big league

John Gapper on the strengths and weaknesses of European investment banks competing for a place among the global market leaders

banks are being transformed. Little over a year since Barings' colin the City of London, the largest have grown in size and ambition. Some now compete to join elite US investment banks such as Goldman Sachs at the top table of global

Few months have pessed since the start of 1995 without one of these new contenders announcing a step in its growth. Some large banks, such as Dresdner Bank, have bought merchant banks such as Kleinwort Benson, while others like Deutsche Bank have tried to hire the best talent from market leaders. Last week's announcement by the

Credit Suisse group that it intended to merge its investment and corporate banking arms into a single body called Credit Suisse First Boston was another form of growth. in this case, it involved putting together existing operations so the could work more effectively.

On paper, it created at a stroke a restment banks such as Morgan Stanley and Salomon Brothers in terms of equity canital and employees. It is trying to put behind a decade of performing at less than its best because of internal tensions between stuff in different dividors.

As these leviathans have been born, they have sent waves of dis-ruption through the industry. Deutsche Morgan Grenfell, the institution created by merging a British merchant bank and the investment hanking part of Deutsche Bank, has caused anger by poaching bankers with million-dollar bonuses.

Waves have also been felt on Wall Street. The long-awaited reform of Glass-Steagall, the US law separating investment and commercial banks, has not yet happened. But European banks have already accelerated their push into the US by hiring staff and buying firms. For example, NatWest Markets, the investment banking arm of

National Westminster Rank of the

uropean investment UK, last year paid £135m to buy a small mergers and acquisitions firm run by Mr Bric Gleacher, a former star at Kidder Peabody, the Wall Street broker. More recently it bought Greenwich Capital Holdin a broker of US government bonds, for £590m to reinforce its fixed income side.

Meanwhile, Union Bank of Switerland, an early entrant into London investment banking when it bought the stockbroker Phillips & Drew in the mid-1980s, has hired corporate financiers, equity analysts and bond traders on Wall Street, These include Mr John Costas, head of US bonds at Credit Sni-

These banks argue that only by having a strong presence in the US domestic market can they rival a firm such as Goldman Sachs. "Once you have cracked the US, you are on your way. If you have not, there Martin Owen, chief executive of NatWest Markets.

The motives behind this rush towards the big league are clear:

Some European banks have no choice but to seek alternatives to their traditional operations. Margins on plain lending to large companies are now wafer-thin, while retail banking for small businesses and individuals is barely profitable in some European markets, particu-larly Switzerland.

· Although investment banking earnings are volatile, 1996 has been extremely profitable. Markets have risen and there has been a wave of mergers, acquisitions and equity issues. "This is a buoyant time in many ways," says Mr Maurice Thompson, head of investment banking at Devische Morgan Gren-

· Many believe this is one of the last chances to make it as a global investment bank. Perhaps a dozen banks are competing to achieve this, and the consensus is that four or five at most will succeed. Some opportunities for growth now, they European banks have advantages in aiming for the top. The biggest one is financial muscle. This is partly a matter of capital. One of the main reasons for the CSFB restructuring was the wish to put the strength of Credit Suisse's bal-ance sheet behind the investment bank's expertise in underwriting and proprietary trading.

Mr Richard Briance, global head of fixed income for UBS, says a strong balance sheet gives banks an edge when companies want to raise cash by issuing bonds or shares. "We can put capital at a company's disposal immediately. That gives us more cards in our pack," he says. The prospect that scares some US

firms most is the sheer stamina of an institution such as Deutsche Bank which has enormous cashflow and traditionally undemanding shareholders. Few believe it will give up easily even if Deutsche Morgan Granfell produces inadequate returns over several years. One senior director of a US bank save it now faces economically irrational

Tet the elite US investment banks have many advantages that will be difficult to overcome. They offer a large range of services, from secondary trading of bonds to putting capital at risk to buy and sell investment portfolios for investors, and advising company chairmen on potential mergers. Furthermore, US investment banks have the natural advantage of roots in the world's largest and most innovative capital market. Goldman Sachs or Merrill Lynch have used the earnings flow from profitable US operations to diversify into Europe.

European commercial banks have found it relatively easy to build bond-trading desks that can compets on price with a big US firm. It has been more difficult to break into the prized businesses that depend on long-term relationships and trust, notably the mergers and acquisitions advisory side.

One problem is that as competition drives down margins in the forms of investment banking that are easier to enter, it becomes more essential to sell a lot of services to each costomer. An investment benk is most profitable when it is hired to execute complex deals and financial restructurings.

This creates a problem for several of the new entrants. How can they create an institution that not only looks powerful on paper, but makes money? "You can build revenue easily enough, but making a profit is a different matter," says Mr Simon Robertson, chairman of Kleinwort

The challenge of establishing sustainable profits is already hard for the long-established US firms. A global study by McKinsey, the consultancy firm, found return on equity among the top 10 US investment banks has fallen steadily in the past 15 years, while pay and bonuses have remained high It will be harder still for their

European competitors, which lack the established culture of firms like European bank says his rivals are unlikely to succeed simply by hir-ing the best talent from US rivals because they are are working against their own interests.

By hiring a collection of stars in bond or equity trading, or corporate finance, and rewarding them for their expertise in their own areas. European banks are creating divided, unstable firms. "The bonus system is at cross-purposes with what is good for the firm as a whole."

Mr Thompson, of Deutsche Mor-gan Grenfell, usually cited by rivals as relying on hired guns, says this criticism is over-blown. He says that the 200 new recruits comprise a small proportion of the 7,000 staff there. The most important thing is to win business. Momentum creates a culture quite quickly," he says.

Momentum is what the European investment banks seek above all. The more optimistic believe the potential market for an investment bank that can provide services in

Europe, America and Asia is grow ing because of long-term trends such as the move towards private investment and liberal markets.

Others are less sanguine about the competitive climate facing the new aspirants. "This is a mature business and it will carry on consoldating. It was given a new lease of life during the 1980s by financial liberalisation but that will only be a pean bank.

This is a worrying prospect for those that fail to take their place alongside the US elite. As competition has grown among brokers and traders in bond and equity markets, those outside the top five in any market may make marginal profits

This could leave several hanks which are now building their operations with an expensive network that does not have enough business to support it. Some investment banks are wary of being caught in this way. "There are advantages to being a tortoise, not a hare," says Mr Robertson of Klein-

The gloomiest observers argue the entire notion of becoming a global investment bank is flawed. Ms Claire Gouzouli, a director of First Consulting, a consultancy that has studied several large investment banks, says that it may be impossible for any of them to

achieve their target.
She says investment banks have traditionally relied on being creative and swift to react to changes in markets. This involves talents that are crushed in big organisations. "In an economic sense, it does not make much sense to try to become a global commercial and investment bank," she says.

Most European bankers are unwilling to accept such a gloomy recognise that they are now in what could be a prolonged and tough bat-tle from which only a few at most will emerge victorious. The best justification for many is that they have little choice but to try.

Minimum wage

The almost certain passage into law of the bill to raise the US minimum wage from \$4.25 (£2.70) to \$5.15 is a politically significant event. The ability of the Democrats to pass the increase through a Republican-controlled legislature suggests politics is swinging leftwards. But the extent of that swing should not be overstated. It is still more important not to exaggerate the economic impact, for good or ill, of this rise.

Since the minimum wage is one of the totemic legacies of Franklin Delano Roosevelt's New Deal, the passage of this legislation is a welcome triumph for the Democrats. President Clinton is shining brightly in the opinion polls. Mr Newt Gingrich, architect of the Republican victory, is in eclipse. Now congressional Democrats can point with pride to their success in mandating higher wages for 10m low-paid workers.

Such triumphalism should be kept firmly in check. The minimum wage has been raised 18 times since it was first introduced, most recently in 1991. It is also and will remain, after the increase

 a largely symbolic gesture. The reason is that its level is so low. The new minimum wage will directly affect only some 8 per cent of US workers. While its sterling equivalent is a mere £3.30 an hour, a minimum wage that bore the same relation to average UK incomes as the new US minimum wage does to average US incomes wage to average US incomes would be just £2.30 per hour. It

says a great deal about the degree of wage inequality in the US that 8 per cent of its workers will be directly affected by such a low minimum. In the UK, the propor-tion would be far smaller: in fact the proportion of full-time UK workers earning below £2.30 an hour is less than 1 per cent.

That the impact of the proposed minimum wage on labour costs will be so small does not make it a good idea. It merely means its adverse effects on the flexibility of the US labour market will be minihypothecated tax on employers whose revenue is transferred directly to employees. Notwith standing controversial suggestions to the contrary, such a tax is likely to have some adverse effect on employment.

More important, it is an ineffec tive way of helping the poor. A low wages are youngsters living with parents and part-time workers in two-earner households. If the goal is to reduce poverty or flatten an increasingly unequal income distribution, a more efficient policy is to target cash subst dies, via the tax and benefit sys-

tem, on genuinely poor families. The minimum wage is either tokenism or likely to damage employment. In the US, it is almost entirely the former. If they wish to make a real difference left-of-centre politicians should be

· OBSERVER

Make it happen

of media mogula' plans for grand channels of digital television, or to build the odd electronic superhighway. Egos have a way of clashing almost before the ink has dried on the deal

But the latest proposed part between British Sky Broadcasting. the UK satellite venture, and the Kirch group of Germany may have

There has been a rapid meeting of minds between two impatient men: BSkyB's Sam Chisholm and Gottfried Zmeck at DF1, the German digital satellite project which will launch later this month. Their bosses, Rupert Murdoch and Leo Kirch, get on too.

Both Chisholm and Zmeck have

little patience for grand talk about strategic alliances. Both say. almost in the same breath, they are interested simply in "doing it". Which is why the BSkyB Kirch strategic alliance might actually endure And why Bertelsmann, the

German media giant, may come to

regret fumbling its proposed allience with Murdoch. · All at sea I "I am a passionate admirer, as I

am told you are, of Patrick

off a letter it takes some beating ----particularly if the recipient bes never heard of Patrick (YBrian, as was the case with one of ... Observer's colleagues. ...

Max Hastings, editor of the London Evening Standard and author of the letter, goes on to issue an invitation to dinner - cost 255 - with the end suffice. Mather than saying anything publicly, i am simply writing privately to ask some of Patrick's fans when I can identify whether they would like to come." Well now it's public, Max. Perhaps some genuine O'Brisn fans - he writes Napoleonic sectaring yarns - will be in touch

Dear reject . . . Mindfal of the effect that rejection letters may have ouunsuccessful applicants, caringcompanies try to soften the blow. It may make more hard-headed seme too, as today's reject may be tomorrow's valuable business contact or may be a customer

Sadly, however, good intentions are so easily undermined. One applicant for a job at a financial house opened up a "No" letter to find warm reassurances. The rejection "should not be taken as a reflection on your skills and experience, it insisted, explaining that the number and quality of .. applicants had been exceptional. A nice touch was the personal signature. But then he noticed the

Bullish Merrill When Merrill Lynch was builtish

emblematic bull for all it was worth. In assorted advertising cumpaigns, the beast was put stop.

a skyrise steel girder and made to
walk through a china shop. Now
that the US house has gone bullish about Spain, where it paid £18.5m for FG, the largest of Madrid's independent broking houses, it has come face to face with a

thundering berd of the real thing. Merrill's chief executive David Komensky, in Madrid to celebrate the takeover, took a leaf from Papa Hemingway's notebook yesterday and stole off to Pampiona where the annual bull run flesta is in full swing. Will there be TV clips of the cotsize Bronx-born former trader sprinting ahead of six menacing toros as they charge through Pamplona's narrow streets to the bullring and their death in the afternoon rendezvous? No such luck. Komansky said he planned to watch the run from a balcony.

Lion taming

So much for bulls. Latest addition to the business world's animal clan is actually the South African hon, its minister of trade and industry, Alec Erwin, tells the like the newls he famo CBI's Invest in South Africa collects.

He goes on to offer an unusual encouragement for potential British investors: "Come and ride the lion - don't let it eat you."

One old lion doing the rounds is

Cyril Ramaphosa, recently retired secretary-general of the ANC. The former labour leader is now deputy chairman of New Africa black-controlled company listed on the Johannesburg bourse. We are told the company constitutes the successful meeting

of minds between black endeavour and enlightened established economic interest". Asked which cap he's wearing here - political or business - he hesitates before replying with a hearty guffaw, Both." Lion tamers might hope for a less equivocal answer.

Beyond our Ken

As Britain fêtes Nelson Mandela, Ken Livingstone, former leader of the now defunct Greater London Council, might be permitted a wry smile about the fuss 11 years ago When an eight-foot bronze of the former Robben Island inmate was erected outside London's Royal Festival Hall. Typical GLC extravagance, sections of the establishment harrumphed – what business have they spending tax payers' money celebrating such a life? Livingstone must be laughing

Financial Limes

100 years ago The United States Election

The Democratic Convention was a scene of great excitement and disorder after four hours devoted to speeches and the nomination demonstrations over the names of Bland. Boles and Bryan rivalled one another in intensity and fervour. A young woman dressed in white led the demonstration in favour of Mr Boles from a front seat in the gallery, where she waved a hanner. She was conducted by excited delegates to the platform. and thence was almost carried to the Iowa delegation, waving her hanner until almost exhausted. At the fifth ballot Mr Bryan obtained the requisite number of nominated as the Democratic candidate for the presidency.

50 years ago China To-day

times greater.

Life in Shanghai is vastly different from the old days. Shortly after the defeat of the Japanese, Shanghai was a cheap place to stay in. At the same time Kumming was the most expensive place in China. Kunming is now about he cheapest place in China and Shanghai probably the most expensive in the world. The cost of living is 4,000 times that in 1936, but the number of Chinese dollars to the pound is only 500

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LAWYERS FOR BUSINESS

Officials braced for fresh upsurge in violence

Leaders in urgent moves to resolve Ulster crisis

By John Murray Brown in Belfast and John Kampfner in London

Politicians and church leaders made desperate moves last night. to resolve the growing crisis between Protestant marchers and police that has brought Northern Ireland close to paralysis. Business leaders and security

officials were preparing for increased violence as the Orange Order's annual marching season reaches its peak tonight. Pour successive nights of mayhem have led to several towns blockaded, Roman Catholic fami-

lies hounded out of their homes

and pitched battles between demonstrators and riot police. Orangemen brought a mechani-cal digger to the front line in the village of Drumcree yesterday, where police put up stone and razor wire barriers to prevent them from completing their annual march past a mainly

Catholic estate. On Tuesday night some 7.000 Orangemen, members of the province's largest Protestant pressure group, converged on the site to assert their rights against what they see as a conspiracy by

China has chosen a European

consortium, Aero International

Regional, as its western partner

in a controversial project to build

3 100-seat airliner. Aviation Industries of China

(Avic). which is responsible for

overseeing the manufacture of

civilian aircraft in China,

announced yesterday that it had

signed a memorandum of under-

standing with Aero International.

jointly owned by Aerospatiale of

France, British Aerospace and

The aerospace division of Sing-

apore Technologies, a leading government-owned corporation,

wui de the tourd partner in the

project, whose development costs

are estimated at \$2bn. The share

of each of the three partners in

the venture has not yet been fine-

lised, and industry sources say

Daimler-Benz Aerospace (Dasa)

of Germany may yet participate.

changes would require costly

modifications to computer

systems, on top of the other big

The EMI warned that urgent

action was essential, since it

would take up to two and half

years to implement the new sys-

Continued from Page L

costs related to Emu.

date Irish nationalists.

Sir Patrick Mayhew, Northern ireland secretary, described the situation as "very dangerous". He added: "Everyone has seen a resurgence of the violence which all of us thought had been left behind us 22 years ago." Sir Patrick welcomed talks in

Armagh between Mr David Trimble, the Ulster Unionist leader, and the heads of the four main churches in Northern Ireland. Mr Trimble described his 80minute meeting with Church of ireland leader Archbishop Robin Eames and Cahal Daly, the Roman Catholic cardinal, as "very worthwhile". But he played down expectations of a break-through. Cardinal Daly said: "The potential is catastrophic. One couldn't exaggerate the seriousness of the situation."

A four-man delegation from the Northern Ireland Office also met with the Garvaghy Road residents' association - the Catholic neighbourhood at the centre of the dispute - in a search for com-

The Royal Ulster Constabulary said the total number of attacks

China picks European group

as partner for airliner project

South Korean group, dropped out

after a dispute over the location of the assembly line. This has

opened the way for both Aero

and Avic to boost their stakes

above the levels originally envis-

aged.
The likely shares are: Avic (45)

per cent), Aero (40 per cent) and Singapore Technologies (15 per

Avic signed an agreement with

Aero when Chinese premier Li Peng visited France in April.

However, at the time China said

it had not yet come to a final

decision on partners and that Boeing of the US was still in the

Aero to include Dasa - which

along with Aérospatiale and Brit-

ish Aerospace is a leading mem-

Industry sources say that once agreements are finalised, the 100-

seater will take about five years

the EMI president said: "The work of implementing the

Some bankers fear it is aiready

too late to provide good money

supply data by early 1999. This would be embarrassing for the Bundesbank, which is demanding

that money supply figures -

rather than inflation targets - be used to set monetary policy

LOW

ber of the Airbus consortium.

Banks urged to overhaul data for Emu

changes must start now.

threatens to snub Yeltsin in war row

By Gerard Baker in Tokvo

officers and 37 civilians injured.

One of those caught up in the violence was Mr Seamus Mallon,

deputy leader of the moderate

nationalist SDLP and MP for

Newry and Armagh. He was taken by helicopter from his

home in the town of Markethill

as loyalists sought to prevent

him from travelling to Stormont to attend the faltering

multi-party talks.
In a statement last night, the

banned Ulster Volunteer Force,

one of the main loyalist paramili-

taries, denied involvement in the killing of a Catholic taxi driver,

Mr Michael McGoldrick. The UVF

insisted its ceasefire was intact.

Extra troops have been despatched to help relieve the over-stretched RUC, taking the total

number of forces in Ulster to about 18,500 - the biggest deploy-ment in the province for 16 years.

The Irish army said 100 extra

troops were being stationed along the border in counties Louth and

Monaghan in response to the

to develop. Although the initial

investment will be high, they say that production in China will boost the viability of the project thanks to low labour costs.

The eventual aim is to export

most of the aircraft, to Asian regional carriers. "We hope to compete to a certain extent with

Bosing," said one executive

involved in the project. Boeing's

150-seater B737 now dominates

However, the market for regional aircraft is highly

competitive. Earlier this year,

Fokker, the Dutch aircraft

maker, collapsed after a long

struggle to survive in the

regional market with its F-100

Asian competition is likely

from Indonesia's state-owned

IPTN, which wants to build an

80-136 seater jet, the N-1300. Also,

Japan and Boeing have been dis

cussing building a 100-seater, cod-

under Emu. The Bank of England says it will implement the

changes from 1999 if the UK

decides to enter Emu. But other

banks fear this will be too late to

create accurate statistics, given

London's role as a financial

for Monetary Union", July 1996. European Monetary Institute.

"The Statistical Reastrements

the Chinese market.

o F-70 lets

numed YSX.

FT WEATHER GUIDE

Protestants under peace spotlight, Page 7

growing tension in the north.

world war.
Mr Hashimoto said he would

Mr Hashimoto said: "Can you imagine my going there on the anniversary of their breaking the Japan-Soviet non-aggression treaty and carrying out the attack on Japan?

"Don't you care? I care, Can I go there for a celebration with

on the country with a television with nothing on my mind?"
On August 8 1945, three days after the dropping of the first should bomb on Hiroshima, the

and throughout east Asia.
As the Japanese army disinte-grated, the Russians seized sev-eral small islands off the northern coast of the Japanese

Japan has demanded their return. The dispute means no formal agreement ending the sec-ond world war has been signed

Japanese residents there."

He did not address the question of what the Japanese were doing in northern China in the spent the previous 10 years or more occupying Manchuria and

The question of the "Northern Territories", as Japan calls the four islands still occupied by the Russians, has long been an impediment to diplomatic relations between the two countries. At their summit meeting in doscow in April, Mr Yeltsin and Mr Hashimoto repeated their commitment to try to resolve the dispute. But a decision to hold the Russian president's inaugu-ration on August 9 would now be seen in Japan as a calculated

prematurely, however. Russian officials have stressed that no final date for the ceremony has been set. Nor is it clear whether Mr Hashimoto will be invited

Hashimoto

Mr Ryutaro Hashimoto, Japan's prime minister, yesterday threat-ened Mr Boris Yeltsin, the recently re-elected Russian president, with a diplomatic saub, evoking bitter memories of unfinished hostilities between the two countries in the second

not attend Mr Yeltsin's inauguration if it was held on August 9, the 51st anniversary of the Soviet Union's invasion of Japanese-held Asian territory.

Soviet Union abrogated its treaty with Japan and invaded Japa-nese-held territories in China

which are still formally at war.
The issue still rankles with many old guard politicians in the Liberal Democratic party, the largest member of the ruling coalition, Mr Seiroku Kajiyama, chief cabinet secretary, said: "On August 9 [1945] I was serving in the military in the former Man-churia. I remember the Soviet military unlawfully entered the war and brought suffering on

first place, Japanese forces had

rebuff to that process.

Mr Hashimoto may be acting

THE LEX COLUMN

Bavarian bankfest

FT-SE Eurotrack 200; ___ --

by about 15 per cent. That may look

unfair, but is an almost exact reflec-tion of how dependent each is on

mobile handsets; they account for 42

per cent of Nokia's sales, 27 per cent of Motorola's but only 14 per cent of

Ericsson's. The main reason Erica-son's shares have held up so well is

that it is especially strong in providing

mobile communications infrastructure

So far, competitive pressures in this part of the market have been rela-

tively muted, as this type of kit cannot be assembled from off-the-shelf compo-nents. But, with Siemens, Alcatel and

Lucent (AT&T's spun-off manufactur-

ing arm) stepping up their efforts in infrastructure, it is only a matter of

time before margins come under pres-

- switches, base stations and the like.

Mobile manufacturers

Deutsche Bank's decision to take a 5 per cent stake in Bayerische Vereins-bank signals its belief that rationalisation of the German banking market is finally on the way. By spending DM500m on a stake in its smaller rival, Deutsche has bought itself a seat

at the negotiating table.

German banking is crying out for consolidation. The top five commercial banks, Deutsche, Dresdner, Commerzbank and the two Bavarians. Vereinsbank and Hypo-Bank, control 30 per cent of the market. In the UK, the top five have over 60 per cent and in France, Switzerland and the Netherlands the figure rises to nearly 80 per cent. Most German bankers feel under pressure to remedy this before international competitors start sniffing around some of the more attractive potential targets.
Against this background, Vereins-

bank looks a tasty morsel, Along with Hypo-Bank it is strong in residential mortgages, a profitable, low-risk busi-ness. It also has a great deal of Munich property tucked away in its books at prewar prices, But perhaps its greatest attraction is the lack of a dominant shareholder – unlike Hypo-Bank or Dresdner, where insurance giant Allianz owns over 20 per cent in each case. That explains why Deut-sche was able to scoop up 5 per cent with little apparent trouble.

Deutsche may not bid for Vereinsbank, at least not yet, but it will cer-tainly try to lift its stake to a more strategic 10 per cent. After all, what Deutsche fears most is a merger between smaller rivals, say Commers bank and Vereinsbank, which would endanger its own market leadership.

Once again, Motorola has disappointed the stock market with poor

sarnings; again, the US manufacturer

has dragged down the share prices of

its main mobile communications rivals, Sweden's Ericsson and Fin-

iand's Nokia. Six months ago, victous competition in "analogue" handsets

was the problem. This time, Motorola

has pointed the finger at mounting price pressure in "digital" handsets, a

newer technology which had enjoyed

higher margins. Falling prices are

hardly surprising as consumer elec-tronics manufacturers, such as Sam-sung and Philips, have been tempted

the US market over the past year, but

not to the same extent. Nokia has

underperformed by 50 per cent, Moto-

into the market by fat margins. The shares of the big three mobile manufacturers have underperformed

Mobile communications

British Airways What would be the financial impact of a pilots' strike at British Airways? Certainly the union's claim that a strike would cost the company £40m a day looks overblown. At this time of year, BA's income from airline passen-gers is around £24m a day. In practice, the revenue loss would probably work out a little less than that - say £22m since the company has some nonunionised pilots, and some journeys could be rescheduled. Moreover, there would be cost savings as well. If the aircraft do not fly, the company does not have to buy fuel; it does not have to pay landing and air-traffic control charges; it does not have to pay stri-king pilots. Assume that 30 per cent of costs can be saved during a strike and the company's daily net loss falls to around £16m. Knock off tax, and the damage to shareholders from each day's strike works out at around £12m

enough to give the company a powerful incentive to avoid a strike. After all, a two-week strike at 216m a day would cost the company roughly as much as the pilots' total annual wages bill. Worse, a sustained strike would inflict serious harm - over and above the direct cost - to the quality of its brand. BA is already being damaged as passengers switch elsewhere.

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The American State of the State

Of course the company cannot afford just to buy the pilots off. Apart from anything else, it would be asking from anything the for trouble from its other unions. But those hoping that this dispute will result in a crackdown on the power of pilots are ignoring the powerful financial pressures pointing to an artful last-minute fudge.

UK pubs

Assuming common sense prevails admittedly a risky proposition when ever UK brewing policy is concerned -inntrepreneur will be able to extricate itself from its regulatory shackles. Commitments not to manage more than 20 pubs or determine which beer they sell may have made sense when inntrepreneur was originally formed by Foster's and Grand Metropolitan. Since Foster's then owned the brewe Courage, concern that Inntrepreneur's customers would be able to buy only Courage beer may just have been valid. But now that Courage has been sold, there is no reason why inntrepre neur should not manage as many pube as it wishes and determine what beer they stock. It would scarcely be different from other big pub groups like

If the Office of Fair Trading accepts this argument, Innirepreneur's owners will benefit. As the UK's largest pub owner, Instrepreneur would command higger discounts on beer supply contracts. Meanwhile, managing pube is a more profitable business than simply lessing them to tenants. The net effect would be to boost innirepreneur's val-nation if, as seems likely, it is floated. Instead of being rated on the basis of its assets, it could command a premium like managed pub business

Implications for other pub operators are less positive, as there would be greater competition to buy up managed pubs. Meanwhile, Inntreprenepr's stronger bargaining power visa-vis brewers could squeeze their margins. Nonetheless, if the emergence of strong independent pub chains persuaded the Office of Fair Trading to allow further consolidation among brewers, the cloud would have a silver

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Europe today

Warm and moist air will be drawn into western Europa Most of England and the Benefux will have sunny spoils. Most places will remain dry but Scotland and Ireland will have a period of rain or drizzio owing to a frontal system. Maximum temperatures will range from 15C to 19C in coastal and cloudy regions to 20C to 25C across the interior of the Benefux. Most of France and Italy will be warmer with sunny periods Contral Spain and Portugal will be hot and sunny Central Europe and south-western Norway will continue rather cool with rain or showers. Southern Sweden and the Balkari states will remain dry with sunny periods. Cyprus and Turkey will be not with plenty of sun. Bolarus and the Ukraine will have some thunder showers and falking temperatures.

Five-day forecast

The central part of the continent will become settled with maximum temperatures rising to 25C or higher. Highest temperatures and the most sun will occur around the Mediterranear and across south-eastern Europe. The northern UK and southern Scandinavia will continue rather cool and unsettled with occasional rain or showers.

TODAY'S TEMPERATURES

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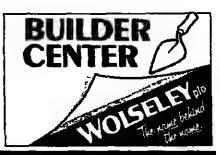
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FINANCIAL TIMES

THE FINANCIAL TIMES LIMITED 1996



Telekom

Malaysia

multimedia

Telekom Malaysia, the former

state monopoly, is planning to invest MS5bn (US\$2bn) over eight

to 10 years to lay the infrastruc

to equip

complex

By James Kynge In Kuala Lumpur

IN BRIEF

Mannesmann wins stake in DBKom

Mannesmann, the German industrial conglomerate. emerged as the winner of 49.8 per cent stake in DBKom, the telecoms network of Germany's railway system, making it the strongest potential competitor to Deutsche Telekom, the state-owned opera-tor, when the German telecome market is liberalised in 1998. Shares in Mannesmann rose DM13.70 to close at DM549.20. Page 14

French and Beiglan lenders to combine Crédit Local de France and Crédit Communal de Belgique, two of the world's most important lenders to local authorities, approved the creation of a joint Franco-Belgian group with combined assets of FFT1,000on (\$194bn). The move is designed to help them respond to intensifying competition in the European banking sector. Page 14

P&G launches \$1bn buy-back Procter & Gamble, the US consumer goods com-pany, launched a \$1bn share buy-back and announced a 12% per cent dividend increase as part of an effort to reassure investors about the overall health of the business. Page 16

Gencor lifts Alusaf holding to 73% Gencor, the South African mining and metals group, has bought a further 32 per cent stake in Alusaf, the country's primary aluminium producer, from the state-owned industrial Development Cor-poration in a deal worth almost R2.2bn (\$507m). The move lifts Gencor's stake to 78 per cent. Page 16

Dixons' rise shows confidence returning Dixons, the UK's biggest electrical retailer, provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in underlying profits to 2135.2m (\$211m) in the year to April 27 and a strong start to the current year. The shares rose 14%p to 580p as analysts upgraded their forecasts. Page 17

Laporte nears and of self-off plane

Laporte, the UK's fourth



completed the bulk of its divestment programme, raising £23.5m (\$36.5m) by disposing of non-core businesses and saying it would invest £19m in its electronics division. The sales follow Laporte's divestment of most of its Australasian businesses in June. Mr Jim Leng (left), chief executive,

said Laporte planned to sell further companies rep-'a bit more" than £10m in turnover. .

Plante rise extends Hikkel's looing streak Japan's Nikkel 225 index fell for the lifth consecutive day as worries over a rise in interest rates, prompted a sell-off by financial institutions. Page 30

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Market Statistics Bond prices and yields Obvidends announced, UK BMS currency rates Freed interest India TASEP-A World Indice

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Chief price changes yesterday

COMPANIES & MARKETS

Thursday July 11 1996

Hoechst may spin off HMR unit

By Wolfgang Münchau In Frankfurt

Hoechst, the German chemical giant, announced yesterday that it was considering spinning off Hoechst Marion Roussel (HMR), its pharmaceutical division, into

a separate company.

The move is intended to lift shareholder value, and reflects the increasing readiness of German managers to implement radical change. The demerger of the division would represent one of the most significant corporate restructurings in German indus-

Hoechst shares rose 2 per cent to close at DM52.52 in Frankfurt. Hoechst confirmed long-standing speculation that Mr Jürgen Dormann, chairman, would German chemical group considers demerger of pharmaceutical division to lift shareholder value

"probably" propose at the next annual general meeting in April 1997 that HMR be turned into a separate legal entity.

A legal spin-off in Germany usually serves as a precursor to a

bourse listing, although Hoechst would not comment on a possible flotation plan. Hoechst proceeded in similar fashion when it separated out SGL Carbon, the carbon and graphite company, which Hoechst partially floated before

selling off the remaining stake. SGL Carbon is now of the most profitable quoted companies in Germany. companies. HMR was created after last

year's acquisition of Marion Merrell Dow, the US drugs group, which Hoechst bought for \$7.1bn. The integration of HMR into

Hoechst appears to have run bet-ter than expected. HMR expects to break even in 1997, rather than the 1998 previously expected. The financial strain of the acquisition is also proving less onerous than had been feared.

Hoechst is the world's largest international trend towards the chemical group and HMR is one of the top five pharmaceutical pharma businesses. The best know example is the decision by Novartis, the company created by the \$60bn merger between Sandoz and Ciba of Switzerland, to hive off its chemicals business. Hoechst denied speculation

that it was planning to float off 15 per cent of HMR as a "misunderstanding". Hoechst said that no final deci-

sion about the future of HMR had been taken and that Mr Dormann had merely expressed a "probable outcome" in respect the legal staIn an interview in today's edition of Die Zeit, the German weekly newspaper, Mr Dormann said: "I want to pre-empt market development with this decision."

He said he was similar to hurr He said he was aiming to turn Hoechst into a management holding company. Such a structure would be similar to that of Daimler-Benz, the transportation

Earlier this year, Mr Dormann said he was considering a sninoff of the pharma activities. Hoechst, however, later denied the plans.

Hoechst in May reported a slow start to its financial year but forecast an improvement in business for the remaining three quarters. First-quarter sales were DM13hn (\$.7bn), unchanged from

ture for a "multimedia super cortridor" to accommodate high-technology companies.

The corridor, 15km wide and 40km long, is to link Kuala Lumpur's city centre, a new international airport and an administrative capital, Putrajaya, which is under construction. The FT writers assess the impact of Swiss financier's move for French cocoa processor government hopes the area will

> software groups, Internet opera-tors, microchip designers and other high-technology groups.
>
> Mr Mohamed Said Mohamed
> Ali, Malaysia Telekom's chief
> executive, said most financing for the investment would be raised internally. The funds are to be spent on laying telecoms lines probably fibre optic - interconnection equipment, software applications and labour. It was not clear when the investments would begin as no launch date had been set for the corridor.

attract information processors,

Telekom has been appointed sole provider of "hackbone" telecoms in the corridor. That means its five leading competitors will be limited to providing value added services, for which they would have to pay Telekom an access fee. Analysts said the con-cession could be lucrative in the

Dr Mahathir Mohamed, the prime minister, has been promoting the corridor, addressing Jap-

The government has not said how many investors have expressed interest in the corridor. But the size of the projects to which it will be linked should ensure strong domestic telecoms demand. The new capital, into which some government departto cost M\$20bn. The airport being built at a cost of M\$9bn, is also set to open within two years. Up to M\$3bn of the funds being spent on Putrajaya are destined for information technology equipment, officials say.

Mr Mohamed Azzman Shariffadeen, director-general of the Malaysian Institute of Microelectronic Systems, envisages the corridor as an ultra-modern world in which people can fill out forms, go shopping and possibly even vote online. Ticketless air travel and smart cards in lieu of passports are other ideas.

Chocolate users fear European supply duopoly

A duopoly in European chocolate supply is feared by many groups who do not make their own. The squeeze could affect even large companies such as Danona, Europe's largest biscuit baker, which buys in almost all its choc-

Chocolate users this week heard that Mr Klaus Jacobs, the Swiss financier, had snapped up Groupe Barry of France for about FFr2bn (\$388m), roughly doubling his share of the independent chocolate market in Europe to 50-55 per cent.

Next to fall, they believe, will be Grace Cocoa, a subsidiary of the US chemical company. "It was a play thing of Peter Grace," a competing chocolate maker said yesterday. But since Mr Grace, the group's long-serving chairman, died in April speculathrough the market.

The US group confirmed yesterday it was "evaluating all options" on Grace Cocce but said it hoped to divest it by the year

Grace has about 25 per cent per cent of the European market. The only other maker of any size is Cargill, the US agribusiness, with a similar share and seen as a likely hidder for Grace.

So far, European competition authorities have failed to respond publicly to the consolidation of the industry. "Jacobs' lawyers seem very confident about Barry." a senior executive of a leading European confectionery

group said yesterday. He believes they will argue that Mr Jacobs' market share falls to about 32 per cent if cocoa butter, fat and liquor are added. These are products, refined from cocoa beans, which are used in chocolate making.

Most of the largest chocolate users such as Cadbury Schweppes, Nestlé, United Biscuits and Mars make their own chocolate. Sometimes some might buy ingredients or finished chocolate from middle men such as Callebaut of Belgium, Mr Jacobs' main chocolate company, or Groupe Barry his new acquisition. But there is also a trend for some said one refiner. "Some people want a tanker of food-grade chocclate to arrive at their door."

Danone is believed to consume about 10 per cent of the independent European supply of covering chocolate, a market of about 600,000 tonnes a year, according to one chocolate maker. "Does this consolidation

improve my competitive posi-tion?" asked one self-sufficient chocolate user yesterdsy. "It's hard to say." On one hand, a merged Barry

and Callebaut will restore thin chocolate margins for the combined unit and put pressure on those who buy in chocolate. Yet, given the strong position of leading self-sufficient users such as Nestlé, which makes Kit Kat, and Mars, retail confectionery prices On the other hand, the barriers

to entry are low. Chocolate users could revert to making their own again, But smaller users would still be excluded. "A lot of small companies can't afford to do their own research and manufacture," a large maker said.

These issues might not be raised with competition authorities in Brussels and national capitals. The same industry associations that represent chocolate users such as ice cream makers and confectioners also represent makers such as Callebaut and Grace Cocoa. Association executives in two national bodies said yesterday they could not comment because of the composition of their membership.

Mr Jacobs' grip on the industry has tightened in other ways. Groupe Barry takes him upstream into cocoa bean processing and links with farmers in the Ivory Coast, the world's largest cocoa producing nation, at a time of tightening supplies.

So far, Mr Jacobs has had largely cordial relations with chocolate users. They troop to Callebaut's "chocolate university" in Belgium to learn more about the product and Calle-baut's technical services. But recent events suggest rela-

tionships could become stickier. Roderick Oram

Jacobs sweetens investor sentiment

supposed to be in the middle of a one-year sabbatical away from his business. However, judging by the pace of his deal making over the past couple of months he may well have to ask for an extension of his sabbatical into next

In May, he announced he was merging the biggest company in his empire, the Adia employment agency, with his biggest European competitor, Ecco of France, creating the biggest company of

its kind in the world.

Now he is bidding to establish himself as a global leader in a completely different field with the purchase of France's Groupe

Although the Swiss press has welcomed his latest move by risse, (chocolate giant), the bulk of Klaus Jacobs family fortune raised from the sale of Jacobs Suchard to Philip Morris in 1990 for SFr3.1bn (\$2.4bn) is now invested in the Adla temporary employment business.

It is Jacobs's success with Adia, culminating to the effective takeover of Ecco, which will probably sway investor sentiment towards the forthcoming initial public offering of his new chocolate bosiness. Swiss invetors have not had a very high regard for Mir Jacobs until now. The fact that he started off as a German (be is now a Swiss citi zen), meant that he was never part of the Zurich business establishment and minority share holders in Jacobs Suchard did not do as well as the Jacobs family in the sale of the business to

Philip Morris. When Mr Jacobs picked up Adia from the remnants of the the financial empire of Werner Rey, the fugitive Swiss financier Swiss investors largely ignored the deal. Jacobs appeared to have paid a high price, the busi-ness was doing badly, and memo-ries of Jacobs Suchard discouraged investors from becoming minority shareholders in another

However, there is nothing like a rising share price to change investor sentiment. Adia's debt



burden has been slashed, the business has been reorganised. and Adia shares which had been trading well below SF1200 have been trading above SFr800 in

his place back in the good books of the Swiss investor

William Hall

This announcement appears as a matter of record only

TOTAL FINANCING CHF 159,000,000 MANAGEMENT BUY-OUT SCHAFFNER

Schaffner Elektronik AG from

Elektrowatt A.G.

Led, Arranged and Structured by HSBC Private Equity Zurmont Management A.G.

Equity Underwritten by HSBC Private Equity Zurmont Finanz A.G.

Debt Led, Arranged and Structured by The Fuji Bank, Limited

Advisers

Coopers & Lybrand Homburger Rechtsanwähte

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HSBC Private Equity

HSBC Private Equity Europe Limited 10 Lower Thames Street London EC3R 6AE Tel: 0171 260 9911 Fax: 0171 260 7265 REGULATED BY IMRO

Shell and Exxon to pool petroleum additives arms By Robert Corzine in London

Shell and Exxon, the western world's largest oil companies, are to pool their petroleum additives businesses in a move that will give the combined unit a quarter of the \$8bn a year international

The proposed 50-50 venture will be formed through the combina-tion of Exxon Chemical's Paramins division and Shell's combined petroleum additives businesses. The new unit will operate worldwide.

The companies say the joint venture is a response to growing competition in downstream markets. It follows the decision earlier this year by British Petro-leum and Mobil of the US to merge their European refining, marketing and retail operations. Shell's share price rose sharply

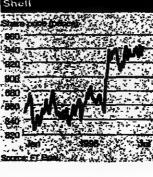
vesterday morning amid speculation that the announcement would concern more radical plans for Shell's chemicals operations or its downstream Although the proposed Shell/

Exxon deal is geographically broader than the BP/Mobil tie-up, it is confined to a single product range. The companies, however, expect "significant enhancements and efficiencies" in research and development as well as in manufacturing, marketing and distri-

Petroleum additives are used to improve the performance of fuels and lubricants, and include specialty products for use in industrial and gear oils and automatic transmission fluids. They are mainly bought by oil companies and independent lubricant pro-

The combined revenues of the two businesses last year was \$1.5bm, out of a worldwide market of \$5hm. The scope of the proposed joint venture means that it will need to be approved by com-petition anthorities in the US and

the European Union. Some jobs would be lost but the "majority" of the 1,600 Exxon employees and 400 Shell workers employed by the two units would be absorbed in the joint venture,



Shell and Exxon have co-oper ated on various activities. Their biggest venture is in oil and natural gas exploration and production in the North Sea, but they share some downstream operations, such as oil product distribution terminals in various countries.

Of the seven petroleum additive technology centres operated by the two companies, two are in

the UK. Shell said it was too early to say whether one of the sites

Crèdit Local de France and Crédit Communal de Belgique, two of the world's most important lenders to local authorities, yesterday approved the creation of a joint Franco-Belgian group with combined assets of FFr1,000bn (\$194bn). The move is designed to help them respond to intensifying competition in the European

Under the proposal, CCB. which is owned by its 600 Belgian local authority clients, will float 30 per cent of its capi-

acquire a 50 per cent stake in each other and be run by a joint management team.

Shareholders still have to approve the accord at extraordinary general meetings in October before formal implementation by the end of the year, but senior executives in the two banks have already agreed to obtain mutual approval before all significant

Mr Pierre Richard, chairman of CLF, described the structure economic merger. although in the short-term the

nies created to own the crossshareholdings in each of the two operational banks.

He stressed that the proposal marked a "marriage of equals". which would be governed by a common set of executives and two chairmen - himself and Mr François Narmon, head of CCB. There would also be a significant number of non-executive directors

He said that by removing the barrier of foreign exchange risks, the development of the single European currency would lead to more concentrapate this movement will have a definite advantage."

. The action comes at a time of growing pressure on banks in both France and Belgium, where there have been heated debates over the past few months about the need for mergers or international alliances in order to survive. Mr Richard said the alliance

would increase the two banks' "financial clout" - improving fundraising powers, scope for joint acquisitions and solvency

ket, and the two groups will with two new holding compa-acquire a 50 per cent stake in nies created to own the cross-The first companies to antici-the two institutions, so they would be able to achieve economies of scale without the need for job losses.

To compensate for its larger size, CLF will pay an extraordinary dividend to shareholders of FFr628m before the merger. The structure is being set up to ensure that French and Belgian investors in the respective holding companies receive approximately the same dividend payments despite significant differences in tax regimes between the two countries.

CCB has been associated with CLF since 1990.

Marianne and Jeff claim marriage of lending equals The specialist bank of the Belgian bank. The two

Crédit Local de France has long been courted in a manner appropriate to its the youthful maiden Marianne who serves as the historic symbol of Republican France.

It took five years of gentle wooing and apparently dashed hopes before yesterday's detailed announcement of a proposed merger with its coun-terpart Crédit Communal de Belgique, which has as its logo - dubbed Jeff - the helmeted head of a "communier", or medieval watchman.

It was not a step taken lightly. For Mr Pierre Richard, chairman of Crédit Local de France, a forced marriage, a union of convenience or one undertaken without conviction just would not work. There had to be a real "communion". Speaking in his Paris office vesterday, Mr Richard admitted he welcomed the advances institutions had long worked together, since CCB took a 5 per cent stake in CLF when it was partially privatised in

He stressed he had always got on very well with his opposite number, Mr François Narmon, and found the Belgians easy to work with.

But it was more than mere social compatibility and personal qualities which explain the link-up between the two groups. CCB approached CLF at the end of last year, at a time of a growing debate in Belgium over the future of the country's banks as competition in the sector intensified across

Mr Richard highlights the importance of the single European currency, which he both advocates and believes will be implemented.

The Euro will be a serious handicap for those who are not

for those who are active," he says. "It is a stimulus for us." He argues that there will be a strong competitive advantage for those groups which are among the first to anticipate the trends towards concentra-

across the continent Rather than tying up with other domestic institutions, CCB decided to turn to CLF. attracted by the ways in which the groups complemented each other. Both concentrate on lending to local authorities and public sector projects, and there is little overlap in the geographical regions they

tion in Europe and accordingly

expand their lending activities

ogether, the two banks claim they will be among the largest 20 in Europe, with total assets of FFr1.000bn (\$194m) and the largest lenders in their niche

At of these securities having been sold, this edvertisement appears as a matter of record only

8,165,000 Shares

Magna International Inc.

Class A Subordinate Voting Shares

1,380,000 Shares

This portion of the offering was offered outside the United States and Camera for the professioned

BMO Nesbitt Burns International Ltd.

6,785,000 Shares

This portion of the offering was offered in the United States and Canada by the undersoned.

Merrill Lynch & Co.

First Marathon Securities Limited

Richardson Greenshields of Canada (U.K.) Limited

Investmentbank Austria

Goldman Sachs International

Schroders

Deutsche Morgan Grenfell

Goldman, Sachs & Co.

Deutsche Morgan Grenfell

Salomon Brothers Inc.

Robert W. Baird & Co.

Edward D. Jones & Co.

July 1996

Loewen, Ondaatje, McCutcheon Limited

Prudential Securities incorporated

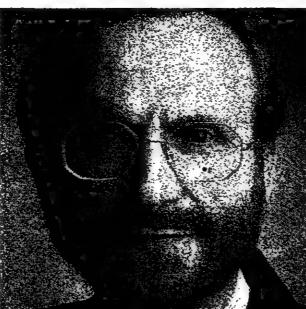
Schroder Wertheim & Co.

Nesbitt Burns Inc.

Bunting Warburg Inc.

Prudential-Bache Securities

MAGNA



around the world. Mr Richard proudly claims the lack of duplication will result in no job losses - a factor which helps explain why his works council approved the merger

He stresses instead the aconfor growth - stressing that "France is not enough" and highlighting the prospect of expansion, first to complete its European network by developing a presence in Italy, and then to strengthen its role in North and South America and south east Asia.

Within the next four or five rears, some senior executives believe there will be a single entity quoted in several mar-kets which completely merges CLF and CCB.

In the short-term, the struc-ture of the "alliance" is more

In the absence of a European-wide legal statute for a cross-border entity, they have chosen for the moment at least to operate with one quoted holding company in each comtry, each with a 50 per cent hasinesses which will contain the existing activities of the

two banks. There will be identical boards for the two holding companies, and for the two operational businesses, with a common co-ordination committee and the two existing heads as joint chairman. "It is an equal marriage," stresses Mr Richard.

A question now for analysts is whether the pressures in **European banking will give** hirth to other cross-border

Mannesmann wins 49.8% holding in telecoms network

Mannesmann, the German mobile phones to tanks conglomerate, yesterday emerged as the surprise winner of a 49.8 per cent stake in DBKom, the telecoms network of Germany's railway system. The deal makes it the strongest potential competitor to chal-lenge Deutsche Telekom, the state-owned operator, when the German telecoms market is liberalised in 1998.

A final decision was made by the management board of Deutsche Bahn, the federal railway system, yesterday morning and was greeted with astonishment by executives in the German telecoms industry, including at Mannesmann

Thyseen, the steel and enginearing group which had been vying for the DRKom stake, said it was "surprised" by the decision and pointed out that its negotiations with Deutsche Bahn had progressed considerably further than those ween DB and Manne We were a good deal nearer a final agreement than our com-

petitors," an executive said. Other executives close to the talks said Thyssen had made more headway but that Mr Heins Dürr, Deutsche Bahn chief executive, and Mr Joachim Funk, who heads Mannesmann, had talked fre-quently in recent days.

Shares in Mannesmann rose DM13.70 to close at DM543.20 while Thyssen's stock fell DM13.20 to close at DM284.30. Executives at DB and Munnesmann refused to disclose the price paid for the 49.8 per

cent stake in DBKom but auslysts said that bids had been increased at the last minute. DB said the price for the stake had been one of several criteria which the company had used to make its decision. Other deciding factors included what national and international telecome connections a potential partner

offered and the strength of existing telecoms activities. Mannesmann had the upper hand, a DB spokeswoman said, because of its partnership with Unisource, the international five-way telecoms venture which includes AT&T, the

largest telecoms operator.
Mannesmann's chances were also improved because of its D2 mobile phone network, the only nation-wide digital mobile network alongside that operated by Deutsche Tele-

"Given Mannesmann's exist-ing activities, DBKom can make its entry into the market more quickly," DB said. Mannesmann said DB's deci-

sion marked an "important step" towards a final agree-ment between the two compa-nies. But it stressed that negotiations and contracts Andrew Jack | have not been completed".

First Austrian snubs Creditanstalt plan

Plans to privatise Creditanstalt, the Austrian bank, through a link-up with First Austrian Savings Bank collapsed yesterday when First Austrian's supervisory board rejected the merger model put forward by its consortium partners. First Austrian insisted it would put only 75 per cent of its shares into the planned holding group. Under this plan, the foundation that controls the bank would keep a 25 per cent minority stake in First Austrian and would also be the largest shareholder in

First Austrian's consortium partners, however, demanded that the holding group included all shares of First Austrian and Creditanstalt. This would prevent the First Austrian foundation from having undue influence over the new banking group, which would be Austria's largest, and would allow a much closer co-operation between the two banks.

The consortium was set up two years ago to acquire a 70 per cant voting stake from the government. It is led by Generali, the Italian insurer, and also includes Commerciank of Germany and Banca Commerciale of Italy. Banking experts say they expect First Austrian to pull out of the consortium, which would then have to prepare a new bid.

which would then have to prepare a new bit.

The government is hoping to net Sch15bn (\$1.4bn) for its stake in the second largest bank, but has no other concrete offers at hand. The Creditanstalt privatisation has dragged on for more than five years and has become an embarrassment in the Austrian government.

Skoda Pilsen slips into red

Skoda Pilsan, the Czech heavy engineering group, said yesterday it would post a pre-tax loss of Kč166m (\$6m) for 1995 after its auditor advised setting aside substantial sums against unpaid receivables. The loss follows pre-tax profits of Kč450m in 1994. Skoda has agreed to a recommendation by its auditor, Ernst & Young, to set aside K6442m for uncollected receivables, investments and inventories, and Kči06m for debt write-offs. It said the write-offs were an attempt to get to grips with "the unhappy heritage of the past". That heritage is thought to include up to Kö4bn it is owed by customers throughout the former eastern bloc which are unable to pay

Total sales in 1995 jumped 56 per cent to Kč27bn from Kč16hn a year earlier, and Skoda predicted they would reach Kč33hn this year. A far-flung conglomerate with interests ranging from turbines to locomotives and trucks, Skoda is viewed with caution by analysts and investors. It has attracted little investor interest because of wariness about the transparency of its accounts. Vincent Boland, Progue transparency of its accounts.

Astra goes to EC over Losec

Astra, the Swedish pharmaceuticals group, has lodged a complaint with the European Commission against Portugal for approving 13 "pirate copies" of its blockbuster anti-ulcer agent Losec. Astra, for whom Losec is set to become the world's biggest-selling drug later this year, accuses Portugal's medical authorities of approving replicas of the drug based on alleged exact copies of Losec's own registration documentation.

Astra claimed Portogal's pharmacy and medicines institute, Infermed, had violated domestic law and a European directive on drug registrations. The majority of the applications — largely by local pharmaceutical companies — were based on "falsified" versions of Astra's documents, it said. Some of the drugs in question did not correspond with registration documents, but Infarmed had so far declined to revoke any

Astra, which has a 50 per cent market share in Portugal. estimates it is insing \$12m a year to Losec imitations. It initiated court action in Lisbon two years ago, but now believes the EC can resolve the matter more speedily.

Grey Mcloer, Stockholm

Viag to bid for MBT

Viag. the German industrial conglomerate, yesterday confirmed it was bidding for Master Builders Technology, the building chemicals company which Sandoz, the Swisschemicals group, is selling as a result of its fusion with Ciba-Geigy. Press reports have suggested Viag would hid up to DM1.4bn (\$919m) for MBT but Mr Georg Obermeier, chief executive, yesterday told Viag's annual meeting in Munich the price for MBT still had to be finalised. "Our idea of a price for this company has clear limits," Mr Obermeier said. "We

cannot pay every price."

If successful, Viag would merge MBT's operations with its own chemicals subsidiary, SKW Trostberg, creating Europe's largest building chemicals group.

Michael Lindemann, Bonn

Fokker awaits Yakovlev offer

Receivers at Fokker, the Dutch aircraft maker which collapsed in March, were yesterday cautiously awaiting a renewed approach from Yakovlev, the Russian aerospace group which was among a number of prospective purchasers in earlier talks to rescue the group. Mr Arkady Gurtovoi, Yakovlev vice-president, told Reuter in Moscow that the company was preparing a Fl 370m (\$207m) offer, which it would fund through western bank credits backed by the Russian

"We seriously intend to buy Fokker before the end of this year," he was quoted as saying, while adding that several bureaucratic hurdles had to be resolved. The deal would involve relocating components assembly conducted in Germany and Northern Ireland. The indicative offer is pitched at the same level as one discussed in April, but the receivers had not replied to conditions they laid down at the time. Since then, Fokker's maintenance unit has been sold to Stork, a Dutch industrial group.

Gordon Crumb, Amstern

■ Renault and PSA Paugeot Citroen, the two big French carmakers, yesterday unveiled a new V6 engine they have developed for mid-range and luxury car models. The engine, which required an industrial investment of FFr1.3bn (\$252m) which required an industrial investment of FFT.3bn (\$252m) split equally between the two groups, will be produced by Française de Mécanique, their jointly controlled manufacturing company, at its plant in the Pas-de-Calais region. It will go on sale this autumn and could eventually be sold to other manufacturers.

Thyssen Stahl, the German steelmaker, has formed a joint venture with Italy's Stale Cross the production.

venture with Italy's Stola Group through a new company, Venture with italy s Siola Group inrough a new company,
Euroweld of Turin, in which each will have a 50 per cent
stake. The venture will produce pre-cut steel plates used in
vehicle manufacturing.

Reuter, Duisberg
Ferrovie dello Stato, the Italian state railway company, is

interested in selling its 2.88 per cent stake in Istituto Bancario San Paolo di Torino but no decision has yet been taken, FS managing director Lorenzo Necci said.

Reuter, Mil

Swiss power groups in telecoms venture

By William Hell in Zurich

Six of Switzerland's biggest regional electricity companies are setting up a telecoms com-pany to challenge the domi-nance of Swiss Telecom after the Swise telecommunications market is deregulated in 1998.

The venture – to be known as DIAX – will be jointly owned, and is seeking a big international telecoms com-

pany as a partner.
The Swiss telecoms market is worth about SFr10bn (\$7.9km) a year and is one of the most profitable.

Although Switzerland is not part of the European Union it has committed itself to following the EU timetable for the complete opening of all telecommunications services to competition and the elimina-

The Swiss electricity industry already has an extensive communications structure which is used primarily for operating power supply instal-lations. Its fibre optic and microwave transmission networks will form the basic platform for DIAX, which plans to supply telephone services (including ISDN and Internet connections), mobile phones, data transfer and computer

The six companies involved are: Aare-Tessin Electricity, BKW FMB Energy, Centralschweizerische Kraftwerke, Elektrizitätsgesellschaft Lau-fenberg, L'Energie de L'Ouest-Suisse and Nordostschweizerische Kraftwerke. They are contributing an initial capital of SFr3m and are seeking other partners in the electricity industry to join the venture.

Purchases boost Gränges refocusing

By Greg McIvor in Stockholm

Gränges, the aluminium subsidiary of Electrolux, the Swedish white goods manufacturer, has acquired two alu-minium companies in the UK and Belgium and is setting up a joint venture in China.

The moves reflect Gränges drive to concentrate on core aluminium operations after the postponement of its planned stock market flotation last year. It said annual sales would rise SKr1.2bn (\$952m). helping to offset the negative impact on turnover of lower metal prices this year. The transactions included

the purchase of Bredon Group, a Cheltenham-based aluminium extrusion and systems company, and Phenix Aluminium, a foil maker near Liège. Details were not released. Mr Lars Westerberg, Gränges

chief executive, said further foreign investments were likely as part of a strategy to make the unit "deeper but slimmer", with a clear focus on aluminium production. The initiative is likely to

'appeal to investors, whose coolness to last year's flotation resulted partly from a perceived lack of focus in Gränges' operations. Gränges, which sold a distri-

in the first stage of the refocusing drive, continues to be seen by Electrolux as a noncore asset. However, Mr Westerberg insisted yesterday's moves were unconnected to any eventual flotation, and the matter remained dormant.

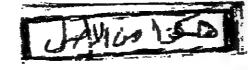
Gränges said the acquisition of Bredon would double its share of the UK aluminium extrusions market to about 23 per cent, making it Europe's second-biggest producer after Norsk Hydro, the Norwegian group. The purchase of Phentz would make it number two in the European thin foil market.

bution division last December produce heat exchanger material for the automotive industry, envisages an initial investment of SKr175m. Granges will take a 70 per cent stake and Shanghai Shenjia Aluminium Industry Company, its Chinese partner, the other 30 per cent.

Granges said it would be the first in China to produce auto motive heat exchanger materials; most of the country's requirements are met by Japanese imports.

It said the venture would be able "substantially" to under-cut imported competition and would produce about 12,000 tonnes a year - equal to 30 per The Chinese joint venture, to cent of the Chinese market.

Richardson Greenshields of Canada Limited



Morgan Stanley & Co.

Gordon Capital, Inc.

CIBC Wood Gundy Securities Inc.

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	Country: Unland States Suctor: Delling	Country: United States Sector: Healthcare	Country: Attable Sector: Oil & Gus	Country-Philippines Sector-Food	Covery: United States Sector: Metals	Country, Limited States Sector Healthcare
	May 1996	May 1996	May 1996	May 18ss	May 1996	May 1996
	U.S. \$150,000,000	U.S.\$45,000,000	U.S. \$342,125,000	U.S. \$65,000,000	U.S. \$111,000,000	U.S. \$23,000,000
	Nebors Industries, Inc.	NPS Pharmaceuticals, inc.	OMV Aktiengesellschaft	RFM Capital Ltd.	RMI Titanium Company	SIBIA Neurosciences, inc.
	5% Convertible Subordinated Notes due 2006	Common Stock	Ordinary Bearer Shares in the form of Ordinary Bearer Shares or American	2.75% Convertible Bonds due 2006 guaranteed by and convertible ido consum shares of	Common Stock	Common Stock
			Depositary Shares	RFM Corporation		(1) (1) (1) (1) (1) (1) (1) (1) (1) (1)
	Bookrumer:	·····Co-lead Manager:	Co-lead Manager:	Booksmer:	Co-lead Manager:	Booknaver
	Selomon Srothers	Sallomon Brothers	Selomon Brothers	Salamon Brothers	Salomon Brothers	Salomon Brothers
	Country: Argentine Sector: Seed	Country: Finland Sector: Handheare	Country: United States Sector: Healthcare	Country: United States Sector: Becirories	Country: United States Sector: Mining	Country: Japan Sector: Financial
	Harp 1995	May 1995	Mey 1986	April 1998	April 1998	April 1986
	U.S. \$77,738,552	U.S. \$89,946,415	U.S. \$147,275,000	U.S. \$250,000,000	U.S. \$50,000,000	000,000,000,000
	Siderar S.A.I.C.	Tamro Corporation	United States Surgical	SCI Systems, Inc.	Stillwater Mining Company	TB Finance (Cayman) Limited Non-cumulative Mendatory
	Class A Stranes		Corporation Common Stock	5% Convertible Subordinated Notes due 2008	7% Convertible Subordinated Notes due 2003	Exchangeable Proference Strates exchangeable into common stock of
je i m	American Depositary Shares Each Representing 8 Class A Shares				Notes due 2003	The Tokai Bank, Limited
	Joint Global Coordinator and Booksunner:	Joint Load Manager:	Booleumer:	Socioumer:	Bookrunner:	Lead Manager and Booknumer.
	Salómon Brothers	Salomon Brothers	Selomon Brothers	Selomon Brothers	Salomon Brothers	Salomon Brothers
¥ ;						
	Country: United States Suctor: Telecommunications	Country: Unded States Sector: Oil, Coal, Gas	Country: Liefled States Sector, Technology	Countries: Italy, The Mathedansia Sector: Lawury Goods	Country: Greace Sector: Telecommunications	Country: India Sector: Iron, Steel
	April 1996	March 1986	March 1986	March 1996	March 1996	March 1996
	U.S. \$157,500,000	U.S. \$215,000,000	U.S. \$52,000,000	U.S. \$1,267,200,000	Dra. 127,857,536,000	U.S. \$125,000,000
	Tel-Save Holdings, inc.	The Columbia Gas System, Inc.	Eagle River Interactive, inc.	Gucci Group N.V.	Hellenic Telecommunications Organization S.A.	Steel Authority of India
	Common Stock	Common Stack	Common Stock	Common Stock	Common Stook	Global Depositary Shares
	Booksiner: G	Salomon Brothers	Bookumer Salomon Brothern	Co-lend Manager: Salomon Brothers	Joint International Load Manager: Salignment Brothers	Co-lead Manager: Salomon Brothers
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	Country, Trainer Sector, Flectrowed	Country: Philippines Sector: Butting Mannels	Country: United States Senter: Transportation	Country: United States Sector: Commercial Serviços	Country: Gennerry Sector: Pinanical Buyer	Country, Unried Kingdom Sector, Electronics, Bectincal
.,1	March 1996	February 1986	February 1986	Peknary 1998 las	Private Placement / February 1936	Fabruary 1996
5. A.	U.S. \$200,000,000	U.S. \$110,679,044	U.S. \$49,045,500	U.S. \$138,937,500	DM 1,000,000,000 Limited Partnership Interests	U.S. \$163,980,000
	Winbond Electronics Corporation	Alsons Coment Corporation	Avondale Industries, Inc.	Career Horizons, Inc.	CWB Capital Partners II Private Equity Fund	Danka Business Systems pic
974. (281)	2% Convertible Bonds due 2003	Common Stock	Common Study	Common Stack	A land menaged by CWB Capital Partners	American Depositary Shares
		International Lead Manager:	Bookrunner: 2	Bookumer		
	Joint Global Countinator and Bookminger: Salomon Brothers	Salomon Grothers	Bookunnar: Salomon Brothers	Salomon Brothers	Global Advisor and Lead Placement Agent: Salomon Brothers	Co-manager and Financial Advisor Ballomon Brothers
	Country: United States Sector: Healthcare	Country United Steam Sector Technology	Country: United States Sector: Cit, Coal. Gas	Country: United States Sector: Mirrests (77	Country: United States Sector: Healthcare	Country United States Sector Minerals
	February 1996	February 1995	Jenuary 1996	Jenuary 1996	January 1996	January 1996
	U.S. \$25,350,000		u.s. \$132,000,000	U.S. \$23,718,750		U.S. \$242,962,500
		ULTRADATA Corporation	Forest Oil Corporation	Hecia Mining Company	Integra LifeSciences	Newmont Mining Corp.
	Common Stock	Common Stock	Common Stock %	Common Stock	Corporation Common Stock	Common Stock
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: :: :::::::::::::::::::::::::::::::::	Salomon Brothers	Bisplanner: Salomon Brothers	Bookumer: Salomon Brothers	Lead Manager: Salomon Brothers	Bookunner: Safomon Brothers	Lead Manager Salomon Brothers

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By Richard Tomkins in New York

Procter & Gamble, the US consumer goods company, yesterday launched a \$1bn share buy-back and announced a 12.5 per cent dividend increase as part of an effort to reassure investors about the overall health of the business.

It warned that growth in earnings per share would slacken in its fiscal first quarter to September, mainly because of weakness in its healthcare business, but said it

sluggishness in the second half of its 1996-97 year. Analysts surveyed by First Call, the research service, had

been predicting earnings per share of \$4.81 for fiscal 1996-97. in a conference call with ana-Ivsts Ms Sara Mathew, assistant treasurer, said Procter & Gamble was "comfortable" with the range of estimates. The company's shares fell \$% to \$87% in early trading yester-

Although Procter & Gamble has made previous share repurchases to offset dilution caused

expected to be completed in 1996-97 fiscal year - will be its first big repurchase pro-

Mr Clayt Daley, treasurer, said the company had previously used cash surpluses for acquisitions. But in 1995-96, acquisition activity was lower and the company was running a cash surplus of more than \$1bm. With the increase in the annual dividend from \$1.60 to \$1.80 a share Mr Daley said the company would return

strating its commitment to delivering "superior" shareholder returns.

Explaining the slowdown in first quarter earnings growth. Ms Mathew and 1996-07 would be "an investment year" for the healthcare business, and higher investment spending combined with lower volumes would particularly affect the

first quarter figures. Other factors affecting firstquarter earnings were currency effects - although hedging operations should make neutral for the year and the transitional effects of

value pricing in Europe. Ms Mathew acknowledged that the switch to value pricing had been "painful", but said it had been essential to move to a more transparent business environment. The move had set the stage for con-

tinued profit improvement in

Procter & Gamble's European

operations, she said. "Now we have turned the corner in the implementation process, we should benefit from this change in the current fiscal year - particularly in the second half," she said.

Gencor lifts its holding in Alusaf

Gencor, the South African mining and metals group, has bought a 32 per cent stake in Alusal, the country's primary aluminium producer, increas ing its interest to 73 per

The move is a vote of confidence in the export potential of Alusaf's new Hillside Smelter in KwaZulu Natal province, which Gencor hopes will further its ambition to come a world-class comm ities producer. The group will offer a further R1.8bn (\$415m) for the balance of shares held by minoritles including Sanlam and Old Mutual, the insurance groups, and Eskom, the state electricity supplier. The R1.3bn Hillside smelter,

which began full production capacity of 496,000 tons of pri-mary aluminium - almost 5 per cent of the world market. A pre-feasibility study for a second smelter near the Mozambican harbour capital of Maputo is under way.

Gencor previously held 41 per cent of Alusaf, and has acquired the 32 per cent stake held by the state-owned Industrial Development Corporation in a deal worth almost R2.2bn. But it has chosen not to finance the deal, using the R1bn netted last week from selling its 15.3 per cent interest in Malbak, the South African food, pharmacentical and

retail group.
In place of cash, the Indus-trial Development Corporation has accepted an entitlement equivalent to 185m Gencor shares, which may not be exercised within three years. After that period Geneor may settle in either cash or shares, although the IDC has the right to call for up to 25 per cent of the settlement to be paid in-

Gencor equity.

The IDC, which has been instrumental in promoting the new Aluszi smelter, has made a paper profit of RLShn since its first investment in the proj-ect in 1992. Alusaf is the largest smelter ever built in a sin-

fortunes of South Africa's priporting Alussi, Gencor is hop-ing to find foreign backers to fund the Maputo smelter if the current study is successful.

man of Gencor, expects Alusai to earn at least R1.5bn a year Africa is favoured by an abundant supply of low-cost elecisolation of the apartheid era.

NEWS DIGEST

Magellan fund hit by redemptions

The Magellan fund, run by Fidelity investments, the US mutual fund group, suffered redemptions in June tollowing the resignation of Mr Jeffrey Vinik, its portfolio manager, late in May. The fund's performance slipped further behind the return so far this year on the Standard & Poor's 500 index. The fund's not agent value followed Standard of April to fund agent value for fund valu fund's net asset value fell from \$56bn at the end of April to \$54.5hn at the end of June. Fidelity said it did not publish specific figures on redemptions, but confirmed there had been an outflow of cash from the fund. The pace of redemptions had slowed, the company said, and most of the money taken out of the fund by investors had been redirected to other Fidelity equity funds. The return on the fund to the end of June was 2.81 per cent, which compares with 10.10 per cent from the Standard & Poor's 500.

Mr Bob Stansky, the new manager, officially took charge of the fund at the beginning of June. Maggie Urry, New York

Cominco buys Peruvian stake

Cominco, the Vancouver-based metals producer, has bought a 26 per cent interest in Peru's Inversiones Colquijirca, which owns 51 per cent of a lead and zinc mine near Cerro de Pasco in the country's central highlands.

Terms of the deal were not disclosed. Cominco has become

increasingly active in Peru in recent years, including the purchase of a zinc refinery near Lima in late 1994. The Colquitirca mine processes about 2,100 tonnes of ore a day, and controls nearby zinc, lead and copper deposits. Cominco said preliminary estimates suggested the San Gregorio property may be the largest undeveloped zinc deposit

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CKI offer heavily oversubscribed

The global offering of Cheung Kong Infrastructure Holdings (CKI), which is being spun off from Cheung Kong, the property development company controlled by Mr Li Kashing, has been heavily oversubscribed, bankers said yesterday. The Hong Kong initial public offering of 29.78m shares is understood to be about 23 times subscribed, and the international placement of 268.02m shares 25 times subscribed.

Shares were priced at HK\$12.65 a share. CKI will raise net proceeds of HK\$4.16bn (US\$587m). While analysts have viewed the company as overdependent on the construction sector, most agreed the offer would succeed because of the Cheung Kong name. CKI receives an estimated 70 per cent of its revenues from its cement and concrete

TNT link boosts logistics side:

activities in Hong Kong.

TNT, the Australian transport group, has announced a link with Computer Sciences Corporation, the US information technology provider, aimed at expansion in the world logistics business. Mr David Mortimer, TNT managing director, said yesterday the link, described as a strategic alliance, would give the companies a strong competitive advantage in the logistics industry.

Mr Mortimer said the companies were trading in Europe as E2E, a company based in Amsterdam and focusing on cost reduction for customers in large cross-border contracts. TNT, which entered the logistics business three years ago, is projecting revenues of about A\$1.5bn (US\$1.17bn) from the Bruce Jacques, Sudner

Gannett to sell outdoor unit

Gannett, the US media group, is to sell its outdoor advertising division to Outdoor Systems of Phoenix, Arizona, for \$600a. Mr John Curley, Gannett chairman, said the proceeds of the sale would go to paying debt. The sale would also allow Gennett to focus on its core businesses, including recently

Dickson considers bid for Barney's

By Louise Luces In Hong Kong

Dickson Concepts, the Hong Kong-based luxury wholesaler and retailer, is considering a bid for Barney's, the bankrupt New York retailer, although the company stressed talks were at a preliminary stage and may not result in an offer

ann may not result in an other being made.

Mr Dickson Poon, chairman of Dickson Concepts, said: "We are looking at Barney's...it's at an extremely early stage and may or may not lead to our making an offer." Other parties are understood to be considering bidding for the US retailer.

Analysts in Hong Kong reckon Dickson has the expertise and experience to turn round the ailing store chain, citing its record with Harvey Nichols, the UK department store it bought in 1991 and floated in April. But they agree reviving the fortunes of Barney's, which filed for Chapter 11 bankruptry protection from creditors in January and is embryiled in a legal true with embroiled in a legal tussle with isetan, a Japanese retailer with which it formed an alliance, would be a more ambitious project than any it has

Nichols, and since then has spent just HK\$180m to take control of the up-market Seibu chain's department stores in Hong Kong and Shenzhen.

Analysts reckoned the market would welcome an offer by Dickson for Barney's, as it would increase the group's geographic exposure and give Hong Kong its first truly inter-national retailer. Mr Lindsay Cooper, at Crosby Securities in Hong Kong, said the group would avoid the problems that Isetan encountered in its alliance with Barney's by assuming full control, rather than keeping the original manage-ment in place. He said: "The problem Isetan

had was that management control was still very much with the original family that founded the company. I would imagine if Dickson did buy Barney's, it would have full control. Mr Poon and his team are competent business managers so I think they would be running the show, as they did with Harvey Nichols." Even if talks do not lead to a

sale, analysts see mileage for Dickson in introducing brand names carried by Barney's. This could lead to distribution

Fursuant to voluntary liquidation in the Cayman Islands of the Rollowing named 11 mutual funds regulated indust the mutual punds . Law of the Cayman islands and these mutual fund managers.

TASE NOTICE THAT; creditors (if my) of the above mosel companies are required, on or before lety 31, 1996, to send full particulars of their debts or claims to the Joint Liquidanus; of the above named fund managers.

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shareholders in 1996-97, demon-Dollar rise imperils foreign income of US business

between \$2.7bn and \$2.8bn to

By Richard Wellers

The recent rally in the US dollar is set to suppress earn-ings growth at many US-based multinationals for the second quarter of this year, according to Wall Street analysts and early indications from compa-

The translation impact from earnings have already slowed the dollar's rise – reducing the sharply. After more than three

ings which have been generated in other currencies - will wipe "several [percentage] points" off second-quarter earnings and is set to continue into the third quarter, said Mr David Schulman. US equity strategist at Salomon Brothers. The currency effect comes at a time when US corporate

years of double-digit gains, US companies are expected to report year-on-year earnings per share growth of only about 7 per cent for the second three months of this year.

Among companies which reported second-quarter results yesterday, Abbott Laboratories, one of the US's biggest healthcare concerns, said that the stronger dollar had wiped more than 5 per cent off its

international sales growth dur-ing the period. Despite this, the company's international sales still rose by nearly 7 per cent in the period, to \$1.1bm, and its after-tax earnings advanced by 11 per cent to \$470m, or 80

The rise in the currency may have contributed to a recent fall in stock prices in the tech-

overseas sales such as pharma-ceuticals and cars, will also be affected, he added. The impact of the stronger dollar on the competitiveness of US industry is unlikely to be felt for some time. However concerns have already begun to surface in some industries

which are particularly vulnerable to international competi-

nology sector, Mr Schulman said. Sectors with significant tion, in both foreign and

Las Vegas puts its money on themed casinos

R ien ne va plus - the roulette croupier's famous cry before the big wheel stops and the little white ball picks its winners are words unlikely to be heard for the foreseeable future in America's gaming balls. Despite the recent flurry of takeover, joint venture and

investment activity, the shuffling of chips goes on. Hilton Hotels, which last month paid \$2bn for Bally Entertainment, is now believed to be talking to Coast Resorts, owner of the Barbary Coast casino in Las Vegas. A deal would bring to four Hilton's

tally of properties on the Nevada city's famous "Strip". Aztar Corporation, best known for its established Tropicana hotels, and seemingly short of the funds needed to dress up its faded if well-positioned Las Vegas casino, is another likely candidate for a

The Las Vegas Tropicana, in common with other "traditional" venues on the Strip, has found itself effectively surrounded by more recent sits the black pyramid and mock-stone sphinx of the Luxor, the property of Circus Circus, which has just broken ground on a \$240m expansion to add two more pyramids.

Across the way it is confronted by a brand-new prop-erty, the 3,000-room Monte Carlo "mega-resort" loosely and expensively modelled on the Monegasque city's Place du

Opening this December on the same block is New York – unvelled plans to spend \$2.5tm New York, which brings a on building new casinos and

mock-Manhattan skyline to the desert city, while the MGM Grand has budgeted \$700m for a revamp of its lion-faced monument to moviedom - opened

less than three years ago. The attractions of the Tropicana's charming menagerie and its claim of having the longest-running show in the town - even if it goes under the name of Folies Bergère - fade almost daily in today's fevered

Further down the Strip, Bally starts work next month on a \$500m "Parislan" resort which will boast a front door replicating the Arc de Triomphe, and a 55-storey copy of the Eiffel Tower for anyone who misses the point.
The "theming" of Las Vegas

has been under way for years as the city's counter to competition from other states which have liberalised their gaming laws. The process has also been driven by a desire to widen and rejuvenate a customer base dominated by 45-

year-old blue collar players. Success has more than doubled the number of Nevada's visitors in the past decade to Vegas Strip alone, which has added 20,000 hotel rooms in the past aix years, now accounts for almost 10 per cent of the national gambling take of

The process has accelerated lately with decisive expansion by rich, respectable, internationally-known corporations such as Hilton and ITT into territory once deemed tainted by mobster connections.

ITT, which last month

All of these securities have been sold. This announcement appears as a matter of record only.

NORTHUMBRIAN

Placing of 69,937,105 new Ordinary Shares in

Northumbrian Water Group Plc

with Warrants to subscribe for shares in

Lyonnaise des Eaux S.A.

raising £120 million

INDOSUEZ CAPITAL NM Rothschild & Sons Limited



Chip of the desert: the Luxor is adding two more pyramids to its casino and hotel in Las Vegas

refurbishing its Caesar's World properties in Las Vegas and its east coast counterpart, Atlantic City, struck a deal days

later with Planet Hollywood. The theme restaurant success of the 1990s - featuring screen memorabilia and food to will be decked out in green baize and relaunched in a chain of casinos with a start-up investment of \$1.8bn.

he scheme mimics and dwarfs the year-old Hard Rock casino-hotel majority-owned by Mr Peter Morton, who last month surrendered full control of the muscosttonal Bard Rock Cafe chain to Britain's Rank Organi-

ITT will pay for the building of the Planet Hollywood prop-

erties and will take an 80 per cent stake in the joint venture in return. As in the case of the group's earlier announcement, Les Vegas will get the Hon's share of the investment.

This clustering of casinos with different themes is an where visitors typically wander up and down dipping in and out of the various attractions until they settle on one where they feel lucky.

Circus Circus, for example, deal to open "luxury" section of Strip properties.

which is exploring yet another avenue to new markets with a deal to open "luxury" gaming halls in concert with the upmarket Four Seasons Regent hotel chain, owns a mile-long Its "Masterplan Mile" strat-

money to gamble away. egy, formally announced last

tions are becoming almost commonplace in the over-heated atmosphere of Sin City, where those who lack a grander design or a dreamier theme than their competitors appear to be guilty of a sin even greater than having no

a substantial chunk of the residential and passing trade within a closely-packed net-

work of half a dozen casinos linked by a monorail and mov-

ing walkways. By the end of

the decade the company atms

to double its room tally in Las

which implies an increase of more than 10 per cent in the

entire Strip's room capacity from a single group.

Such extraordinary ambi-

Christopher Parkes

It is a mark of the changing mary aluminium sector that although other commercial

Mr Brian Gilbertson, chairin foreign exchange. Capital intensive industry in South tricity generated from coal, a legacy of attempts by the gov-ernment to develop self-sufficiency in energy during the

autumn, is designed to capture Fall in semiconductor orders indicates industry slowdown

By Louise Kehon in San Francisco

Motorola has kicked off what is expected to be a dismal round of earnings reports from the US semiconductor industry.

Not only were semiconductor sales down 5 per cent in the quarter, but orders booked in the period were down by 34 per cent, signalling even slower sales in the coming mouths. The third largest US chip-maker after Intel and Texas instruments, Motorola will not

be alone in reporting a sharp drop in chip revenues for the June quarter, according to industry analysts. Several other chipmakers have already warned that their results may disappoint. Advanced Micro Devices expects lower sales, while Cyrix has projected a loss for

the quarter. Both compete with Intel in the market for microprocessor chips used in personal computers. Among smaller chip companies, Altera has issued a profits warning and cut its workforce. Brooktree expects a loss for the quarter. Integrated Silicon Solutions has warned that sarnings will fall below those for the first quarter of the year. Lattice Semiconductor expects an 8-10 per cent shortfall in

tor has forecast lower sales and earnings.
Last month National Semiconductor and Micron Technologies both reported sharp drops in earnings for their fis-cal quarters ending in May. It all adds up to a broad slowdown in semiconductor

sales that now appears to be

affecting many product types

beyond the "commodity" mem-

ory chip segment, which has

been slow for six months.

sales, and Sierra Semiconduc-

Motorola postpones expansion

Motorola, the US semiconductor and telecommunications equipment group, reported a 32 per cent fall in second-quarter earnings and said it would postpone plans for expanding semi-conductor output, writes Louise Kehoe.

The company blamed heavy price competition and weakening

demand in the semiconductor sector as well as pricing pressures in the cellular telephone market for a result that was significantly lower than expected. Costs associated with introducing new cellular phone technologies also reduced earnings, it said.

Revenues for the second quarter were \$6.83bn against \$6.88bn last year. Not income fell to \$326m, or 54 cents a share, against \$6.88bn against \$6.88bn last year. \$481m, or 79 cents, a year ago.

Analysts had been forecasting a decline, but were expecting earnings of about 68 cents.

"We expect the factors that have affected second-quarter earnings to continue," said Mr Gary Tooker, Motorola vice-chairman and chief executive. "We are selectively deferring capacity expansion programmes."

In the semiconductor sector, Motorola said sales fell 5 per cent to \$2bn and orders declined 34 per cent. Cellular telephone revenues fell because of lower prices, although sales of equipment used by service providers rose. In the messaging, information and media sector sales rose 20 per cent to \$1.1bn. One cause of slower chip sales is a change in the buying puter manufacturers, which

patterns of US personal comare among the biggest consumers of semiconductor chips. Prompted by sharp price falls for memory chips, PC manufacturers are reducing their stocks of many types of semiconductor components, say industry analysts. This has caused a slowdown in orders as the PC makers work off existing inventories, which were in any case bloated by lower-than-expected PC sales

last Christmas. There are some signs, however, that the slump in semiconductor sales may already

have bottomed. The North American book-tobill ratio, a closely watched indicator of the industry's health, rose in June, according

to new data released this week

by the Semiconductor Industry Association, a trade group. For June the ratio, which measures the value of new orders booked versus sales revenues, was 0.91, up from a

revised figure of 0.83 in New chip orders booked increased slightly, from \$3.09bn in May to \$3.11bn in June. Analysts said this indicates that order activity may be about to pick up. Sales continued to decline, however, from \$3.7bn in May to \$3.43bn in June, a 7

per cent drop. Despite the general slowdown in semiconductor sales; Intel, the world's largest chipmaker, is expected to show continued strong growth for the June quarter. Analysis are projecting earnings of \$1.09 a share, a nine per cent increase over 99 cents a share in the same period last year.

attempted in the past.
Dickson's cash balance of

more than HK\$1.2bn (US\$155m) would help fund any acquisi-tion. The company raised some a showcase for Dickson in the £64m (US\$99m) through the US.

deals, with Dickson represent-ing the labels in Asian markets. If a sale does go ahead, LEGAL NOTICES

LAW OF THE CAYMAN ISLANDS AND THERE MILITUAL FUND MANUSCIPLE.

American Real Rente Growth Fund Limited,
Anchorage international Fund Limited, Argentina Income & Growth Fund Limited,
Argentina Income & Growth Fund Manager Limited, Brazilian Growth Fund Limited,
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Liberty Fund Manager Limited, Methopolitan Real Estate Fund,
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cio Coopers & Lybrand, PO Ber. 219, George Town, Gened Crysman, Cayouna Islands, Schish, West Indica. Telephones: # 309 949-7600, Fac: # 809 947-4227.



Funds

Dixons profits leap 35% to £135m

By Christopher Brown-Humes

Dixons, the UK's biggest electrical retailer, yesterday provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in underlying profits and a strong start to the current year.

Shares in the group rose 14.5p to 580p, as analysts sharply upgraded their profits forecasts for this year.

Sir Stanley Kalms, chairman, said: "Against the background of improving consumer confidence, the outlook for the financial year is promising."

The upbeat assessment con-firms the views of other leading retailers, including Marks and Spencer and John Lewis, that sentiment in Britain's high streets is recovering.

Analysts said Dixons would

do particularly well because spending - including windfall building society payouts - was being directed more towards consumer durables than clothing. It is the country's biggest seller of personal computers where sales are growing rapidly - and should see higher white good sales due to the housing market recovery.

Profits before tax and exceptionals rose from £100.8m to £135.2m (\$210.9m) in the year to April 27. The pre-tax figure was £101.5m after an exceptional £33.7m write-off relating to a failed US investment.

The figures underline the group's dominance of the UK electrical retailing sector, where its 17 per cent market share dwarfs competitors such as Comet and the regional electricity companies. It reinforced its lead last year by lifting its market share in PCs, brown goods, white goods, and mobile

One analyst said: "This is a real quality story. They are doing absolutely everything

Like-for-like sales rose 11 per cent, lifting total retail sales by 28 per cent to £1.9bn. The improvement reflects a 17 per cent rise in retail selling spa store refurbishments, and a jump in PC sales. Currys Superstores, PC World and The Link, were all expanded aggressively.

The star performer was PC World, the computer specialist, where sales more than doubled to £262m and like-for-like sales



Stanie Kalms: his upbeat assessment confirmed the views of other leading retailers

Dixons the high street chain speciasing in personal and portabl electronics, rose from £522m) £578m (9 per cent likefor-like while sales at Currys, which meentrates on larger

jumper 30 per cent. Sales at white and brown goods, jumped 16 per cent to top the Sibn-mark (a 10 per cent rise, like-for-like). The Link, a tele-communications specialist. saw sales leap from £1.8m to

Retail operating profits climbed 38 per cent to £125m. BZW upgraded this year's profits forecast from £160m to £190m, while Kleinwort Benson increased from £160m to

Somerfield float could raise up to £570m

By Christopher Brown-Humes and David Blackwell

Somerfield, the UK's fifth biggest supermarket chain, is today expected to set an indicative price range for its flotation which would raise between £530m and £570m (\$890m).

The range suggests Somer-field is holding its nerve in the face of a tougher new issues market and adverse comments

on the group's prospects.

Dramatic evidence of the market problems emerged yesterday when Monsoon, the fashion retailer, abandoned plans to float.

Somerfield's flotation prospectus is due to be published

Indications early this week suggested that institutional investors would take a lot of convincing to take the stock, except right at the bottom end

of the range.

If Somerfield is floated according to the range in the prospectus, it will put the group on a price/earnings multiple of between 9 and 10 times. This is a substantial discount to the market - but not as big as some analysts have suggested is necessary to ensure success. One analysi said yesterday he had expected pricing to be between £450m and £500m.

However, the prospectus will include a provision to set a price outside of the published range, although such a move is unlikely to impress potential investors.

Last month Jarvis Hotels came to the market via a bookbuilding exercise. At the last moment it raised the top of its range to 180p a share - well above the 150p-170p set in the prospectus. The final price was 175p, but the shares have since languished and closed yesterday at 171%p.

Somerfield maintains that it has had a positive reception both from institutions and its own shoppers. It has under-gone a strong recovery since Mr David Simons became chief executive in 1993, culminating in a 43 per cent jump in operating profits to £100.5m last

LEX COMMENT Dixons

Dixons is sitting pretty as the dominant force in a growing market. Demand for electrical goods has risen by 7 per cent a year over the past decade, almost three times the rate of consumer spending generally. That should continue, with a raft of new products like flat screen televisions likely to attract more than their fair share of those building sockety windfalls. And Dixons is pulling away from the com-petition. Its market share in

white and brown goods is

already 20 per cent - twice that of nearest rival Comet and rising as regional electricity companies and Escom of Germany (which bought most of the former Rumbelows shops in the UK) have run into trouble. Yesterday's 35 per cent increase in underlying profits showed the group reaping the

For now, Dixons should just keep on doing what it is doing already; opening more out-of-town sites; expanding its success ful PC World computer format; and investing in distribution and customer service at a pace that rivals cannot match. Capital spending was 2.4 times depreciation last year and the ratio will be similar again this time. With Dixons' disastrous diversification into the US fresh in the directors' minds - the final £34m write-off was taken in these figures - there is little danger that the company will stray into foreign markets. And for the next three years there is plenty of room for expansion in the UK. After the massive outperformance of the post 18 months, the shares are trading on a lofty 19 times expected current-year earnings. But they offer earnings growth to match and still look attractive.

Ivernia West raising I£41m via rights issue

By June Martinson

Ivernia West, the Irish minerals exploration company. is raising I£41.25m (£43.3m) from a rights issue to reduce debt and finance the development of a zinc-lead mine. The issue is on the basis of

one convertible loan stock unit, priced at 80p, for each ordinary share. The shares were unchanged at 90p yester-

Payment for the loan stock will be in two equal instalments. The second one wil be delayed until planning parmission is granted to the Lisheen Mine, the second largest zinclead deposit in Europe, or July 1 1998, whichever comes first.

instalment, the loan stock immediately converts into ordinary shares. The mine, in County Tipper-

ary, is a joint venture between Ivernia and Minorco, part of the Anglo American Corporation of South Africa. Minorco, which also owns 24 per cent of Ivernia, has agreed to pay about IS9.9m to take up its rights to 12.3m loan stock

The remaining 39.2m units have been underwritten by the new broking partnership of ABN AMRO Rothschild, acting through Riada, the Dublin Ivernia's current net debt of

198m - which gives gearing of 76 per cent - will be wiped out On payment of the second by the issue

Brewers take fizz out of Matt Clark return to black

Matthew Clark, the acquisitive drinks company, yesterday blamed a sharp reduction in brewers' discounts on draught beer cutting profits in half at its wholesale division.

The collapse in wholesale profits, coupled with higher than expected exceptional charges for restructuring, dis-appointed the City, and the shares fell 17p yesterday to close at 743p. Operating profits at Freetraders, the wholesale side that takes 100,000 barrels of beer a year, tumbled to \$2.7m (25.3m), and margins fall to 1.7 per cent (4.4 per cent).

Mr Peter Alkeus, chief executive, said 18 months ago the group had been buying beer on the same terms as pub groups, but now it was paying £40 to £45 more per barrel. But he believed there was no further downside, and predicted that ruption and hell and high year t24p (21p

ably be only £20m (\$31.2m) -

the bottom end of its revised

target set last week - and post-

poned its entry to the market

In June, the Cambridge-

based drugs company had been

hoping for a £25m valuation

and an impact day of July 4.
Mr Richard Onyett, a direc-

tor, said that Henry Cooke Cor-

porate Finance, sponsor of the

float, was "continuing to mar-

ket" the shares to institutions.

been asked to invest in five

biotech flotations and several

rights issues on the main mar-

ket alone in the last few

RESULTS

Border Television

However, institutions have

until the end of the month.

Cambrio flotation value

the wholesaling business presented a great opportunity as the tied system between brewers and pube continued to frag-

The group returned to the black in the year to April 30, with pre-tax profits of £17.2m (\$26.8m) after exceptionals of £25.1m for restructuring. This compares to a pre-tax loss of £11.8m after exceptionals of £82.7m in the previous period. Group sales rose by more than half to £451m, with acqui-

sitions contributing 299.4m. Wholesale sales accounted for \$162.6m, up more than a third. Mr Alkens, who has driven the group to second place in the UK cider market behind Bulmer, said the group was planning for organic growth through its collection of leading brands, including Gaymer's Olde English and Taunton Cider's Blackthorn. "The dis-

months. British Biotech

launched a £143m rights last

to link Cambrio to the biotech

sector, in which most stocks

This meant that unlike a typ-

ical biotech company, Cambrio already had one product on the

market - Paradote, an over-

dose-protected paracetamol -

and another, a thalidomide-

based drug for Aids, that was already being sold to patients although it was still undergo-

Cambrio suffered pre-tax losses of £342,000 (£1.12m) on

sales of £4.2m (£4.96m) for the

year to March 31. The main

operating subsidiary is Penn

Pharmaceuticals, a private

Pro-tax profit (Em)

(8.86) 1.31 (1.03) (11.61) 2.3 (1.93) (2.3) 2.1 (1.93) (1.647) 101.54 (100.3) (50.2) 4.05 (4.73) (61.7) 3.764 (3.26) (48.2) 0.843 (1.06) (299.3) 17.194 (11.354) (293.1) 14.75 (16.97)

Earnings shown basic. Dividends shown not. Figures in brasies are for corresponding period. After exceptional char \$40m exceptional credit. (On increased capital.

ing clinical trials.

company.

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Yr to Apr 30 75.67

6 miles to Mer 31 56.7

Yr to Apr 30 450.9

Yr to Apr 28 318.1

GT US SMALL COMPANIES FUND

Société d'Investissement à Capital Variable 2, boulevard Royal, LUXEMBOURG

R.C. Luxembourg B-25176

ANNUAL GENERAL MEETING

of shareholders of GT US SMALL COMPANIES FUND will be held at the offices of Banque Internationale à Lucembourg, Société Anonyme, 69, route d'Esch, L-1470 Lucembourg, on Friday, July 19, 1996 at 4.00 p.m. with the following agenda:

To consider and approve the Reports of the Board of Directors and of the Auditor:

To approve the Statement of Net Assets and the Statement of Operations as at March 31, 1996 and to allocate the net results;

To discharge the Board of Directors and Auditor in respect of the performance of duties for the penod ended March 31, 1996;

To elect as Auditor to serve until the next Annual General Meeting of Shareholders, Coopers & Lybrand S.C.;

The shareholders are advised that no quorum is required for the terms on the agends of the Annual General Meeting and that decisions will be taken on sample majority of the shares present or represented at the meeting.

In order to attend the meeting of July 19, 1996, the owners of bearer starce will have to deposit their shares five clear days before the meeting with Banque Internationale & Librarybourg, 69, route d'Esch, L-1470 Librarybourg.

4. To elect the Directors to serve until the next Annual General

6. To approve the payment of Directors' fees;

7. Any other business:

Notice is hereby given to the shereholders, that the

have fallen in recent weeks.

per cen to 14.3 per cent. The sales increased 61 per cent to £288.4mincluding £85.6m from

talk arup."
Opering profits in the

brande drinks division

jumpedfrom \$17m to £41.2m, with megins jumping from 9.5

The goup claims 41 per cent of the K cider market after paying 105m for Gaymers at the end of 1994 and £275m for Taunto last November. It is concentating on Olde English for theoff-trade and Blackthorn f the on-trade.

Mr Aleas admitted that the disruppn of integrating the two achisitions had damaged markethere for both brands, but i was too early to break but their individual

A firl dividend of 15p is proposed, ifting the total for the

Mr Dior Cowling makes the

job to orking for a biotechnol-

ogy comany tomorrow, when

he leass James Capel, the

stockbaker, to become direc-

tor of hisness development at unliste Phairson Medical.

Mr Gwling is part of the

Capel'seam that took second

place irExtel's annual survey

of heah care analysts and

third noe in its survey of pharmacuticals analysts.

At 31te has worked nearly a

decadein the City, having

spent fie years as an analyst at Nomra Research Institute

and for years at Capel. He said: "Ition't realise it would

happen's quickly as this, but I always hought if an offer

came from the right company

4.4 5) 14.7 (.6) 7.4 (9) 15.31 (.6) 8.63 (.54) 8.21 (.71) 18.4 (.71) 18.5 (.2)

rare jmp from an analyst's

Amlyst joins board

of inlisted Phairson

Laporte nears end of disposal plans Minerals, a US pet litter busi-ness; and Laporte's 50 per cent

By Simon Kuper

Laporte, the UK's fourth largest chamicals company, completed the bulk of its divestment programme yesterday, raising £23.5m (\$36.7m) by disposing of non-core busi-nesses and saying it would invest £19m in its electronics The sales, which follow

Laporte's divestment from most of its Australasian businesses in June, mean the com-pany has received more than 252m cash in two months. Mr Jim Leng, chief executive, said Laporte planned to sell further companies representing "a bit more" than £10m in turnover.

The businesses sold yester-day made operating profits of £1.9m on sales of £22.3m in 1995. They are Gramos, a Birminghum-based process chemi-cals business; Countdown Clean Systems, a cleanroom

Phairson, founded in late

1993, is developing products using the compound PHM-101.

an enzyme discovered in a spe-

cies of Antarctic Krill. Five

phase II clinical studies have

been completed for use of the

compound to combat infections

including genital herpes and

Clinical trials in acne, fungal

nail infections and genital

warts are still being carried out. Mr Cowling said: "The product definitely has biologi-

cal activity, but we don't know

what this will mean therapeu-

tically yet."

Phairson is thought to have

no immediate plans to float,

given the market's sceptical attitude to biotechnology

stocks in recent weeks.

GT DEUTSCHLAND FUND

Société d'Investissement à Capital Variable 2, boulevard Royal, LUXEMBOURG

R.C. Luxembourg B-25023

ANNUAL GENERAL MEETING

of sireholders of GT DEUTSCHLAND FUND will be held at the office of Banque internationale à Luxambourg, Société Anonyma, 69, Lite d'Esch, L-1470 Luxambourg, on Friday, July 19, 1996 at 2.30 m. with the following agenda:

Topprove the Statement of Net Assets and the Statement of Options as at March 31, 1996 and to allocate the net results;

Trischarge the Board of Directors and Auditor in respect of the pérmence of duties for the period ended March 31, 1996;

5. Tolect as Auditor to serve until the next Annual General Meeting officerencies, Coopers & Lybrand S.C.;

The tareholders are advised that no quorum is required for the inemon the agenda of the Annual General Meeting and that decions will be taken on simple majority of the shares present or repnemed at the Meeting.

in oier to attend the meeting of July 19, 1996, the owners of bearer shan will have to deposit their shares five clear days before the means with Banque internationals à Luxembourg, 69, route of Esch, L-14) Luxembourg.

- THE BOARD OF DIRECTORS

t, Talect the Directors to serve until the next Annual General

Tapprove the payment of Directors' fees;

7. Ar other business:

A. Acumment.

. Toonsider and approve the Reports of the Board of Directors and

Notif is hereby given to the shareholders, that the

post-partum haemorrhoids.

consider it."

stake in Laporte (Malaysia), an absorbents business. They have been sold for a 27.9m premium over net asset value, but there will be a good-

will write-off of about £14m. Analysts left their pre-tax profits forecasts unchanged at £120m. "The businesses they are selling are frankly virtually unprofitable," said one. Laporte made restructuring provisions of £88.7m last December when it decided to sell off non-core businesses

accounting for 10 per cent of Its enles. Laporte will invest £19m in the next two years to expand its reprocessing facilities for high-margin electronic silicon wafers, used in making semiconductors. Of the money, £6.5m will be spent on expanding existing facilities in the UK and France, and £12.5m on a

Number 1 in the Eurolira Market in 1995



Abbey National Lire 275 billion 1) % Callable Notes

due 1998





Abbey National Lire 200 billion 11% Notes

due 1997



Lire 200 billion Zero Coupon Notes due 1998



Lire 200 billion 12% Notes dne 1997



Crédit Local de France Lire 300 billion Zero Coupon Notes

due 1997



Lira 300 billion 10.45% Notes due 2000





Lire 150 billion

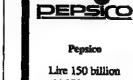
Zero Coupon Notes

due 1997

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Helaba

Helaba Frankfort Line 300 billion 11% Notes





Floating Rate Notes

dne 2000







11.05% Notes

Lire 200 billion Zero Coupon Notes due 1996

World Bank

Lire 150 billion 10.60% Callable Notes



World Bank Lire 250 billion 10.60% Callable Notes

In 1995, for the second consecutive year, Credito Italiano ranked as the Leading Bookrunner in the Eurolira Bond Market having Lead Managed 24 bond issues totalling Lire 2,800 billion with a market share of 14.2% CAPITAL MARKETS DEPARTMENT Head Office, Piazza Cordusio, 20123 Milan

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demptions

downgraded to £20m By Simon Kuper The biotechnology sector suffered another blow yester-day when Cambrio said its valuation at flotation would prob-

By Richard Lapper. Capital Markets Editor

Strong European and Asian demand for dollar issues paved the way for the issuance of a bevy of short-dated dollar deals yesterday, with spreads tightening when the bonds were

freed to trade. Yields on a two-year bond for Toyota Motor Credit Corp, launched by Nomura and SBC Warburg, fell from a level of flat to US Treasuries to 3 basis points under, while yields on a three-year deal for Swiss Bank Corporation, led by SBC Warburg, fell from minus 3 to minus 6 basis points under

Dealers pointed to heavy retail demand especially from Switzerland, following last Friday's sell-off in the Treasury market and subsequent gentle

"People were looking for opportunities to buy on dips and many Swiss were encouraged to buy euro issues which dropped below par," said one. Demand for the Toyota deal was helped by a shortage of quality corporate paper at the short end of the yield curve, added a syndicate manager.

been unusual demand from bond tightened from 21 basis large UK institutions, taking defensive positions as a result of volatility in the US market and seeking to benefit from strong performance by deals

targeted at retail investors.
Yields on a three-year deal by Toyota Motor Finance launched in May have fallen from 5 basis over US Treasuries to Treasuries less 15, for

INTERNATIONAL **BONDS**

Elsewhere, as expected, Fortis Investments, part of the Dutch/Belgian financial group, launched the latest of several recent European securitisations and the first mortgage securitisation from the Nether-

Payments on the securitised mortgages are guaranteed either indirectly by the Dutch state or by Dutch local authorities and the issue carries a zero risk weighting.

Syndicate managers at UBS reported a favourable reception from investors, with more than half the demand for the issue coming from outside the Netherlands. The yield spread said however, that there had over the Dutch government

points at launch to 20% bid and 19% offer when the bonds were freed to trade.

UK financial institutions were also active in the market, with both Halifax Building Society and Abbey National Treasury Services raising money from European investors for funding purposes.

Abbey National launched a SFr200m three-year issue which will become fungible with its SFr300m deal launched last mouth. Like the earlier issue it is led jointly by SBC, UBS and Credit Suisse and is designed to increase the bank's name awareness among Swiss retail investors.

By contrast, Halifax targeted its FFr2bn 12-year deal at French institutional investors. The proceeds of both issues will be swapped, generating funding at sub-Libor rates.

Woolwich Building Society debt since 1993, with a £200m 25-year bond. Launched at a spread of 115 basis points over the 8 per cent 2021 gilt, the issne is classed as tier two capital for regulatory purposes and forms part of the society's restructuring programme shead of its plans to float on the stock market.

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Bevy of dollar issues at short end of yield curve OTC financial transactions at record levels

By Samer Iskander

Activity in over-the-counter (OTC) financial derivatives soared to record levels last year, according to the Interna-tional Swaps and Derivatives Association (ISDA).

Transactions outstanding in interest rate options, and currency and interest rate swaps stood at \$17,713bn at end-1995,

DERIVATIVE INSTRUMENTS

up 56.7 per cent from \$11,303bn a year earlier. The notional volume of new business grew 39.4 per cent to \$8,699bn in 1995, from \$6,241bn in 1994. Netting - offsetting amounts owed to each other by two or more institutions - has been a main factor contributing to the

growth of OTC derivatives. "Netting allows more efficient use of capital and reduces risk," said Mr Robert Schwartz, co-chairman of the ISDA market survey committee and executive vice-president of Republic National Bank.

Fears have often been expressed that the growing use of non-exchange traded deriva-tives could induce a rise in the overall level of risk. However, Mr Schwartz pointed out that, in parallel with the market's growth, "dealers and end-users continue to develop credit-risk mitigation techniques".

These include the use of collateral – often required by lealers from counterparties of lesser financial strength - aa well as termination clauses built into OTC contracts that are activated when pre-detarmined events occur, such as a credit downgrading of one of

ISDA said that, over the years, the default rate on

"very low" level. Furthermore, said Mr Schwartz, "the overwhelming majority of counterparties are investment-grade institutions", a fact that has been constant since OTC derivatives trading started.

The association pointed out

that the rise in activity had been strong in all sectors of the OTC market but some types of transactions have clearly gained more than others.

For example, interest rate options - comprising caps, col-lars, floors and swaptions outstanding at year-end 1995 stood at \$3,704bn, an impressive 136 per cent higher that a year earlier. Mr Tom Montag, vice chair-

man of ISDA and a pertner at Goldman Sachs, attributes "the robust activity in these options...to increased mort-gage hedging, increased mar-ket volatility and the general pick-up in business". Growth was particularly

strong in non-dollar transactions, a sign of "the growing sophistication of non-US dealers and investors", according to a risk manager at a large

Outstanding currency swaps in French francs and Danish kroner, for example, grew by 66.1 and 76.5 per cent respec-tively from year-end 1994 to year-end 1995. Elsewhere, outstanding currency and interest rate swaps in yen grew 369.8 per cent between 1991 and 1996 or 278.9 per cent in constant exchange rate terms.

Based on information from participating dealers, ISDA counted a total of 480,842 swaps transactions of all types outstanding at the close of 1995, up from 306,197 a year

The data was compiled by Arthur Andersen, the accounting firm, from 71 ISDA member

BENEGE CHOICE SEATH

Fed study lifts Treasuries but most of early gains erode

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Des 1.72 1.88 1.28

IN HIGHERNAL ITALIAN GOVT, BOND (STP) FUTUR

IL LONG GILT PUTURES OPTIONS (LIFFE) \$30,000

By Maggle Urry in New York

US Treasury prices reacted positively to a study by Federal Reserve economists suggesting it should not take an aggressive stance on inflation, so long as prices are rising moderately, until the economy

An article in the Wall Street Journal suggested this could explain the Fed's decision last rates. That lifted hopes that the rise in the Fed's target interest rate, which the market is expecting, could be averted.

WORLD BOND PRICES

MENCHMARK GOVERNMENT BONDS

BOMD FUTURES AND OPTIONS

progressed gains of more than a quarter point on the long bond were eroded. By midday, it was up & at 864 to yield 7.111 per cent and the two-year note was 1 higher at 99%, yielding 6.834 per cent. The September 30-year bond future

was i stronger at 107%. Since last Friday's employment report showed the economy was stronger than many thought, the bond market has been expecting the Fed to increase its target rate at its next policy meeting on August 20. if not before, to head off a

threatened rise in inflation.

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7.54 9.15† 2.57 3.29 6.51 8.74 8.32 7.12 7.89 8.01 6.69 7.12

ment bond markets was uneventful, despite the recovery in the US Treasury market since last Friday's fall. Anelysts said trading was set to remain quiet today as no

COVERHMENT BONDS

announced by the Bundesbank cil meeting, although there were faint hopes that it might switch to a variable repo rate from a fixed rate.

in a state of suspended anima-tion until Friday's US data," said Mr Stephen Hannah, chief economist at IBJ. US PPI and retail sales data for June are due tomorrow, as is the latest Michigan sentiment survey.

French call money to 3nd caused a flurry of excitement in the French government bond market which ralled for the third consecutive day. Mr Julian Jessop, chief Euro-pean economist at Nikko, said

future returned to its level before the US non-farm payroll release last Friday. It rose to 121.34 before settling at 121.70, up 0.32 on the day.

■ UK gilts also returned to highs seen last week. On Liffe, the cut suggested there could the September long gilt future be some monetary easing from

PT-ACTUARIES FIXED INTEREST INDICES

the Bank of France independently of the Bundesbank. The

cut meant that the short end of

the yield curve remained well-

supported while the long end

was neglected because of its

perceived lack of value.

On Matif, the September 10year notional government bond ■ A delay in cutting interest rates and political salemate over the governmens threeyear economic plan set Italian bonds lower. Septemer government bond future eased 0.27 to 117.11 in the fermoon but were off the day low of 117.01. The spread ger Germany widened slight to 282 basis points.

from 151 points.

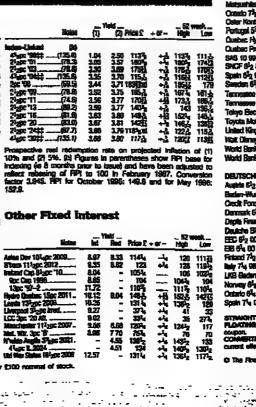
107½ but was unableto break decisively above this evel. In

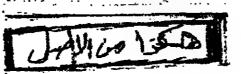
the late afternoon, it raded at

106s, up & point onthe day.

The spread over ermany came in to 149 bass points

points of 100%	PT-ACTUARSES FIXED INTEREST INDICES	
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0.29 0.57 1.36 1.57	1 Up to 5 years (22) 122.25 0.10 122.36 2.52 100 5 yrs 7.27 7.50 7.62 7.51 7.56 7.85 7.39 7.42 7.51	
0.57 0.82 1.00 1.59 0.97 1.15 1.00 2.24	2 5-15 years (18) 146-52 0.20 146-35 2.23 12 16 yes 8.11 8.14 8.16 8.12 8.15 8.21 8.20 8.24 8.85	2
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n Low Est, vol Open Int.	7 Over 5 years (11) 188.06 0.22 187.86 1.41 31 Over 5 yrs 3.77 3.79 3.82 8.87 3.89 8.44	
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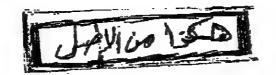
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CURRENCIES AND MONEY

MARKETS REPORT

US dollar weakens over concern about yen policy

The dollar weakened on the foreign exchanges yesterday amid growing uncertainty about the policy stance of the US and Japanese authorities towards the yen and the dollar.

Sterling recovered after Tuesday's decline caused by expectations of lower interest rates and slight signs of a split between the UK Treasury and the Bank of England.

The D-Mark found strong support against most currencles in spite of another set of weak economic data. Analysts said the Bundesbank was unlikely to cut interest rates at its regular council meeting today.
The French authorities cut

the overnight call money rate by is percentage points to 3 per cent. Economists said this might signal a further cut in. The Belgian franc weakened.

the official intervention rate. Some traders said its weakness was linked to declines in the

POUND SPOT FOR

tions of an increase in Datch interest rates.
The Australian dollar rose as

it benefited from increased investment flows from Japan. The dollar finished in Lon-don against the D-Mark at DM1.5246 from DM1.5233, and against the yen at Y110.125 from Y110.24.

Sterling closed at DM2.3688, from DM2.3637. It finished against the dollar at \$1.5535, from \$1.5517. Sterling's tradeweighted exchange rate index closed at 86.5 from 86.4 at the mevious close

■ With markets again quiet yesterday, attention turned to speculation about the US and

Jul 10	Luther	Prov. cit
£ upot	1.5505	1,5495
T man	1.5501	1.5491
3 min	1.5504	1,5494
1 90	1.5550	1,5542

Belgian and Dutch government bond markets which in turn were linked to rising expectations. Japanese authorities' attitude to the dollar's recent rally and about US interest rate policy. about US interest rate policy.

The dollar's rally has begun to provoke comments from both Japan and the US, leaving currency markets uneasy about the direction the authorities might take the currency in next

Remarks by Japanese offi-cials have over the last few weeks left traders feeling that they may be unhappy with the speed at which the dollar has gained ground against the yen. There are fears that a weak yen will lead to rising import price inflation, which may

est rate tightening. In addition, traders fear Japanese companies which have responded to the appreciation of the yen in recent years by shifting production overse may now begin to lobby against a weaker yen since this leaves them at a disadvantage when they import goods back

into the country.

bring forward a potential inter-

Lira Against the D-Mark (fire per DM) 1,000 ---1,060

US companies on the other hand have begun to complain that the recent appreciation of the dollar against the yen may soon begin to int exports.

Traders fear they may start to pressure the US government to pressure the US government.

Hawkins testimony.

to reverse the dollar's rise. not about to bow to the US corporate lobby but it does meen it is unlikely to pursue a

DOLLAR SPOT

Paul Meggyesi, strategist at inflation added to the debate. Deutsche Morgan Grenfell.

US and Japanese governments were prepared to resist these pressures or not, there was scope for the dollar to head

Mr Gerard Lyons, chief economist at DKB International in London, said: "The market is waiting to see some shake-out in the dollar against the yen, but even then there is still an upward bias for the dollar against the yen."

■ Speculation about US interest rate policy intensified as analysts attempted to predict what Mr Alan Greenspan, Federal Reserve chamman, might

reverse the dollar's rise.

"The US administration is Fed committee members might argue against an interest rate ate since stronger growth need

stronger dollar policy," said Mr not necessarily mean higher

He said that as long as it remained unclear whether the its tumble on Tuesday. This followed criticism by Mr Kenneth Clarke, the chancellor, of Bank of England economic forecasts, which analysts said appeared to highlight a rift between the Bank and the Treasury.

The pound had also been undermined by the UK Tree surv's summer economic for cast on Tuesday. This revise up the projection for gover ment borrowing which ther fore appeared to suggest the government would have turn to lower interest rates if was to meet its optimisti growth forecasts.

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Sind	96.02	96.02	+0.08	P6.04		20,048	68,029
Bing) Dec	95.80	85.83	+0.08	15.84	85.78	9,598	44.5%
Mer	P6.58	95.57	+0.D	95.60	96.66	4,582	36,132
THREE M	Open	Sett price			P DM1m po	ints of 100% Est. vol	Open int.
Зер	98.58	96.55	+0.01	96.57	96.54	27899	195455
Dec	98.37	98.38	+0.00	96.38	96.34	45007	200700
Mari	96.01	96.03	+0.05	98.05	95.99	33864	191254
Jun .	95.84	95.85	+0.05	135.67	95.60	17237	112240
THE PERSON NAMED IN							
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Dec	82,19 82,39	R2.14 92.31	-0.04 -0.01	92.31 92.38	92.10 92.29	3462	3501 I 20672
lkin	92.33	92.30	+0.01	92.37	92.28	2206	11252
e Trincis p							
- 17-44, 54	Open	Sett price	Change		Low	Est vol	Open int.
Beo	97.25	97.29	+0.08	97.52	97.25	6884	37863
Desc	97.07	97.10	+0.08	97.12	97.08	3381	22227
Mary .	98.87	96.88	40.05	98.00	96.87	829	2073
Asn	96.63	96.63	+0.05	96.63	96.61	170	1479
THREE M	IONTH III	JROYEN	والمرازات	e (LIPTE) Y	100m point	a of 100%	
	Open	Set price	Change	High	Low	Eat. VO	Quen int.
Sep	00.12	99.13	+0	99.13	99.15	66	100.
Dec	98.75	75	40.01	98.75	98.75	375	ne.
Minor		98.43	+0.01			0	na.
	DETTI U		5 UF	E EQUÍT	points of 10	17%	
	Open	Sett price	Change	i fron	Low	Est. voi	Open int.
Вер	96.57	95,56	+0.02	96.57	95.54	907	7572
Dec	95.43	95,42	+0.02	5.43	95.40	423	5077
Mar	95.18	95.18	+0.05	(T. 71)	95.17	159	3065
Ato	OA ME	84.80	+0.05	94.80	94.88	6	2350

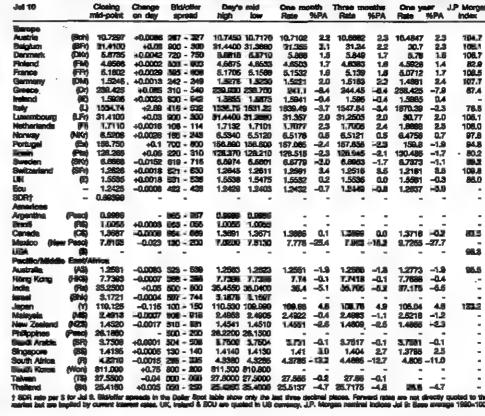
WORLD INTEREST RATES

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(Bch) 18.6681 +0.0322 568 - 785 18.6787 18.6208 18.6986 2.2 18.6918 E.E - (BF) 48.7939 +0.1015 518 - 350 48.6300 48.6280 48.6388 2.3 48.5080 E.E 47.7180 2.2 (DC) 9.1342 +0.0085 270 - 412 7.2480 7.2130 7.2297 0.7 7.2216 E.J - (BT) 8.0161 +0.0085 270 - 412 7.2480 7.2130 7.2297 0.7 7.2216 E.J - (BT) 8.0161 +0.00139 182 - 189 ELGSM 7.3544 8.0038 1.8 7.9811 1.7 7.8977 1.8 (DM) 2.3883 +0.0048 077 - 304 2.3723 2.3613 2.3690 2.3 2.3548 2.5 2.3161 2.2 (DM) 371.935 +0.551 672 - 167 372.707 370.128 2.3 2.3690 2.3 2.3548 2.5 2.3161 2.2 (DM) 371.935 +0.551 672 - 764 0.1758 (DS758 0.5783 0.5743 0.6 0.5731 0.7 0.9686 0.5 (L) 2384.14 +6.86 E70 - 565 2387.11 2372.63 2380.08 -2.6 2380.64 -2.6 242.04 -2.0 (L)7 48.7939 +0.1015 518 - 501 49.8390 48.6280 48.6890 2.3 48.5090 2.3 47.7239 2.2 (F) 2.6660 +0.0055 557 - 582 2.6616 2.6489 2.6616 2.8 2.3599 2.7 2.5922 2.5 (NK) 10.1294 +0.0157 212 - 375 10.1433 10.0223 10.1208 1.0 10.1033 1.0 10.0204 1.1 (SK) 10.3586 +0.005 557 - 582 2.6816 2.6489 2.6616 2.8 2.3599 2.7 2.5922 2.5 (NK) 10.1294 +0.0157 212 - 375 10.1433 10.0223 10.1208 1.0 10.1033 1.0 10.0204 1.1 (SK) 10.3586 +0.005 557 - 582 2.6816 2.8489 2.6516 2.8 2.3599 2.7 2.5922 2.5 (NK) 10.1294 +0.0157 129 - 385 19.576 10.4777 19.575 - 1.07209 1.0 10.1033 1.0 10.0204 1.1 (SK) 10.3586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.2 2.5 (NK) 10.1294 +0.0157 212 - 375 10.1433 10.0223 10.1208 1.0 10.1033 1.0 10.0204 1.1 (SK) 10.3586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.2 2.5 (NK) 10.1586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.2 2.5 (NK) 10.1586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.2 2.5 (NK) 10.1586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.1 344.559 - 2.2 2.5 (NK) 10.1586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.1 344.559 - 2.2 2.5 (NK) 10.1586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.1 344.559 - 2.2 2.5 (NK) 10.1586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.2 2.5 (NK) 10.1586 +0.005 557 - 582 2.6816 2.8823 - 2.1 344.559 - 2.2 344.559 - 2.2 344.559 - 2.2 344.559 - 2.2 344.5 Bizropa Austria Belgium Denmark Finland France Germany Groscu Ireland Italy Lusernbourg Netherland Noway Portugal Spain Swetten Swetten Swetten Swetten Swetten Soll Edu SDR† 106.4 107.4 83.6 109.0 108.3 87.9 98.8 75.9 108.4 109.8 98.5 98.5 90.1 110.0 86.5 1.2808 +0.0022 497 - 505 1.2826 1.2470 1.249 1.2 1.346 1.4 1.2827 1.4 84.3 97.A [AG] 1.9467 -0.07107 450 - A88 1.9619 1.9880 1.9408 -1.8 1.9549 -1.5 1.9796 -1.7 (H4G) 18.0226 +0.0124 191 - 281 18.0288 11.9777 12.0746 0.8 12.0089 0.7 11.9681 0.3 (Fin) 54.7892 A0.1905 852 - 225 55.0650 54.4320 Hang Kong 108.8 Singapore South Africa



	(A) Es	AND	DERI	VATIV	ES													
XCHANO	E CR							_				_	_					_
Jul 10		BFr	THE P	Fift	DM	IE.	L	R	HEC:	В	Plu	200	SPr	È	CB	\$	Y	
eigium	(EFI)	100	18.70	16.43	4.863	1.998	4986	5.448	20.76	499.1	408.5	21,23 11,35	4.019	2.060	4.357 2.330	2.185 1.703	187.5	1.37
omen/k	(DKs)	53.47 80.87	10 11.38	8.786 10	2.595	1.066	2813 2974	2.013 3.316	11.10	208.8	218.4	12.92	2.149	1,248	2.852	1.986	213.4	1.55
ance	(PM)	20.60	3.853	3,385	1	0.412	1007	1.102	1.278	102.8	84.16	4.375	0.828	0.422	0.808	0.686	72.26	0.52
erstelly elected		50.04	3.003 LISB	B.222	2.429	1	2445	2.725	10.39	249.7	204.4	10.63	2.011	1,026	2.181	1,594	175.5	1.26
iv	<u>11</u>	2.047	O.Min	0.336	0.099	0.041	100.	0.111	0.426	10.21	8.360	0.435	0.062	0.042	0.000	0.085	7.377	. 0.05
therlands	150	18.36	3.435	3.018	0.891	0.367	898.9	1	3.811	91.81	74.98	1.00	0.738	0.376	0.800	0.586	64.37	0.47
DEPARTY	(NK/I	48.16	9.007	7.913	2.339	0.962	2353	11.524	10	840.4	196.7	10.23	1.836	0.987	2,099	1,894	168.9	1.05
sctugal	(150)	20.04	3.747	3.292	0.972	0.400	979.1	1.062	4.180	100.	BYJES	4,255	0.806	0.411	0.873	0.638	70.27	0.51
	Pad	24,48	4,570	4,022	1,188	0.489	1196	7.354	5,063	1222	100.	5,198	0.964	0.502	1.087	0.780	85.86	0.62
reden	(SKr)	47.09	8.807	7.737	2.286	0.941	2301	2.566	9.778	235.0	192.4	10	1.00	0.985	2.052	1,500	185.2	1.20
witzerland	(BFr)	24.88	4,658	4.088	1.208	0.497	1216	1.355	5.106	124.2	101.6	5.333	1	0.510	1.084	0.702	87.25	0.63
K	(52)	48.79	8.134	8.016	2.368	0.975	2384	2.668	10.12	243.5	100.5	10.36	1.961	1	2.126	1.554	171.1	1.25
unade	(C4)	22.05	4.200	3.770	1.114	0.459	1121	1.250	4.765	114.5	93.74	4.873	0.922	0.470	1	0.737	80.46	0.58
8	(4)	31.40	5.871	5156	1.524	0.827	1534	1.710	6.519	1867	128.2	6.667	1.282	0.644	1,568	1	110.1	0.80
pen.	S)	26,52 39,03	5.333 7.299	4.685 E.413	1.384	0.570	1393	1.553 2.126	6.921 9.104	142.8	118.5 158.4	8.055 8.988	1.146 1.508	0.984	1,701	0.908	100. 136.8	0.73
D-SAME PL	TURES		M LEALW	DO DW							THE P							
	pen SR1	Latest 0.8585	Change +0.0008				Est. vol 13.436	Open int. 64,724			Open 1,9150	Latest 0.9165	Change +0.0000	High	L	ow E	Bst. vol 15,586	Open 1
p 0.0	5581	0.8585 0.8625	+0.0009 +0.0008	0.658	0.6		Bst. vol 13,436 126	Open int. 84,724 2,069	Sep Dec				Change	High 0.918	0 04	ow E	15,586 642	78,95 8,735
1.D G	•	0.6565	+0.0008	0.658	0.6	577	13,436	84,724	Sep		1.9150	0.9165	Change +0.0009	High 0.918	0 0.5	ow E	15,586	78,95 8,73
ip Q.i no D.i nr	5581 5521	0.8585 0.8625 0.8686	+0.0008	0.659	0.6 5 0.6	577 895	13,436 126	84,734 2,089	Sep Dec Mar	6	1.9150 1.9294	0.9165 0.9265 0.9362	Change +0.0009 +0.0011	0.918 8.929	0 0.5	ow (1134 2265	15,586 642	78,95
9 9.1 10 0.1 17 SW286 FRA	5581 5521	0.8585 0.8625 0.8686 UNINE (1	+0.0008 +0.0008 MM) 8Fr 12	0.658 0.652 25,000 pe	9 0.6 5 0.5	577 896	13,436 126 23 11,400	84,724 2,089 311	Sep Dec Mar Sep		1.9150 1.9294	0.9185 0.9285 0.9382 0.9382	Change +0.0001 +0.0011 \$22,300 p	0.918 0.928 0.928	0 0.6 4 0.5	ow (1)	15,586 642 32	78,95 8,735 136
9.0.0 F SW355 FRA	5581 5521 MG PUTT	0.8585 0.8625 0.8686 UNINE (1 0.7958 0.8020	+0.0008 +0.0008 MM) SFr 12	0.658 0.652 25,000 pe	0.6 5 0.5 7 877	577 896	13,436 126 23 11,400 105	54,724 2,069 311 36,747 1,274	Sep Dec Mar Sep Dec		1,9150 1,8294 PILITUR 1,5462	0.9185 0.9285 0.9392 1.5498 1.5500	Charge +0.0011 +0.0011 \$22,300 p	1.552	0 0.6 4 0.5 B 1.5 0 1.5	OW (134 1286 1286 1470 1800	15,586 842 32 10,550 4	78,95 8,73 125 126 1,08
9 0.1 F 9 0.1	5581 5521 MG PUTT	0.8585 0.8625 0.8686 UNINE (1	+0.0008 +0.0008 MM) 8Fr 12	0.658 0.652 25,000 pe	0.6 5 0.5 7 877	577 836 -	13,436 126 23 11,400	84,724 2,089 311	Sep Dec Mar Sep		2,9150),9294 	0.9185 0.9285 0.9382 0.9382	Change +0.0001 +0.0011 \$22,300 p	1.552	0 0.6 4 0.5 B 1.5 0 1.5	ow (1)	15,586 642 32	78,95 8,73 136
p G.I so D.I swiss FRA p G.I ic	5581 5521 	0.8585 0.8625 0.8686 UNIBB (I 0.7958 0.8020 0.8082	+0.0008 +0.0008 -0.0001 -0.0001 +0.0008	0.658 0.652 25,000 pe	0.6 5 0.5 7 877	577 836 -	13,436 126 23 11,400 105	54,724 2,069 311 36,747 1,274	Sap Dac Mar Sap Dac Mar	- 1 	1.9150 1.9294 	0.9185 8.9285 0.9882 85 (MM) 1.5498 1.5500 1.5530	Change +0.0001 +0.0011 	1.551 1.554	B 1.5	6W (1734 1286 1286 1286 1286 1280 1380 1380	15,586 842 32 10,550 4	78,95 8,73 126 126
P C.I	5581 5521 	0.8585 0.8625 0.8686 UNIBB (I 0.7958 0.8020 0.8082	+0.0008 +0.0008 -0.0001 -0.0001 +0.0008	0.658 0.652 25,000 pe	0.6 5 0.5 7 877	577 836 -	13,436 126 23 11,400 105	54,724 2,069 311 36,747 1,274	Sep Dec Mar Sep Dec	- 1 	1.9150 1.9294 	0.9165 0.9285 0.9892 1.5496 1.5500 1.5530	Change +0.0001 +0.0011 -0.0012 -0.0012	1.551 1.554	0 0.6 4 0.5 8 1.0 0 1.2 0 1.2	6W (7134 2286 	15,586 842 32 10,590 4 1	78,95 8,73 136 57,66 1,066 6
BUILDE FRA	HIG POT	0.8585 0.8625 0.8606 0.8606 0.7968 0.8020 0.8022	+0.0008 +0.0008 -0.0001 +0.0008	0.658 0.652 25,000 pa 0.798 0.802	8 0.6 5 0.8 7 8Pr	980	13,436 126 23 11,400 105 37	96,747 1,274 95	Sep Dec Mar Sep Dec Mar Jul 1	S EW	1.5150 1.5264 1.5462 1.5462 Ecu or rabes	0.9165 0.9265 0.9392 1.5498 1.5500 1.5380	Change +0.0001 +0.0011 -0.0012 -0.0012 -0.0002 -0.0002	1.551 1.551 1.552 1.554 Change on day	B 1.5 0 0.5 1 0.5 0 1.5 0 1.5	6W 1734 1286 1286 1286 1286 1286 1286 1286 1286	15,586 842 32 10,590 4 1	78,95 8,73 136 136 1,08 8
SMSS FRA D. O.	HIG POT	0.8585 0.8625 0.8686 UNINE (II 0.7968 0.8020 0.8082	+0.0008 +0.0008 -0.0001 +0.0008	0.658 0.652 25,000 pe	0.6 5 0.5 7 877	950	13,436 126 23 11,400 105	54,724 2,069 311 36,747 1,274	Sep Dec Mar Sep Dec Mar Sep Dec Mar Sep Jul 1	S EU	1,5150 1,8294 1,5462 1,5462 Ecu of 162,44 0,7822	0.9165 0.9265 0.8382 1.5488 1.5500 1.5500 1.5500	Change +0.0001 +0.0011 222,500 p -0.0012 -0.0012 -0.0013 hate set Eau 31,085	1.551 1.552 1.554 1.554 1.554 1.554 1.554 1.554 1.554	B 1.50 0 1.50 0 1.50 0 1.50 0 1.50 0 1.50 0 1.50 0 1.50	6W 1734 1296	15,586 642 32 10,550 4 1 1 ** apress v vension 2.15	78,95 8,73 135 1,08 8 1,08 8
SMSS FRA DATE CONDON 10	REST	0.8585 0.8625 0.8606 UNREA (N 0.7568 0.8082 F/A1	+0.0008 +0.0008 +0.0001 +0.0008 +0.0008 TES 7 days notice	0.658 0.662 25,000 ps 0.798 0.802	8 0.6 5 0.6 7 887-	950 950	13,436 126 23 11,400 105 37	34,724 2,089 311 36,747 1,274 95 One year	Sep Dec Mari Sep Dec Mari Jul 1 Spain Jul 1	S EU	1.5462 FOPE Ecu co 1624 0.7922 2.1521	0.9165 0.9265 0.8892 1.5498 1.5500 1.5580 1.5580 1.5580 1.5580	Change +0.0011 +0.0011 -0.0012 -0.0012 -0.0013 -0.0013 +0.0011 -0.0013 +0.0011 -0.0011	1.551 1.552 1.552 1.552 1.554 Change on day -0.117 0.000281	8 1.5 0 1.5 0 1.5 0 1.5 0 1.5 -0.	6W 1734 1286 1286 1280 1280 1280 1280 1280 1280 1280 1280	15,586 642 32 10,590 4 1 1 % spread v urealler 2.15 1.41	78,95 8,73 135 135 1,06 8 1,06 8
DE CONDON I	REST	0.8585 0.8625 0.8606 UNREA (N 0.7568 0.8082 F/A1	+0.0008 +0.0008 +0.0001 +0.0008 +0.0008 TES 7 days notice	0.658 0.662 25,000 pa 0.798 0.802	8 0.6 5 0.8 7 88 7 0.7	950 	13,436 126 23 11,400 108 37 Sky norths	34,724 2,089 311 36,747 1,274 95 One year	Sep Dec Mari Sep Dec Mari Jul 1 Spain Jul 1	S EU	1.5462 FOPE Ecu co 1624 0.7922 2.1521	0.9165 0.9265 0.8892 1.5498 1.5500 1.5580 1.5580 1.5580 1.5580	Change +0.0011 +0.0011 -0.0012 -0.0012 -0.0013 -0.0013 +0.0011 -0.0013 +0.0011 -0.0011	1.551 1.552 1.552 1.552 1.554 Change on day -0.117 0.000281	8 1.5 0 1.5 0 1.5 0 1.5 0 1.5 -0.	6W 1734 1286 1286 1280 1280 1280 1280 1280 1280 1280 1280	15,586 642 32 10,590 4 1 1 % spread v urealler 2.15 1.41	
Q. O.	REST	0.8585 0.8625 0.8606 0.7568 0.8082 0.8082 RAT	+0.0008 +0.0008 -0.0001 +0.0008 -0.0008	0.658 0.662 25,000 ps 0.798 0.802	0.6 5 0.5 7 887- 7 0.7 7 17- 17- 18- 18- 18- 18- 18- 18- 18- 18- 18- 18	950 950 951 952	13,436 126 23 11,400 108 37 Sky norths	84,734 2,089 311 36,747 1,274 95 One	Sep Dec Mar Sep Dec Mar Sep Dec Mar Sep Jul 1	S EU	1,5150 1,8294 1,5462 1,5462 Ecu of 162,44 0,7822	0.9165 0.8285 0.8882 1.5486 1.5500 1.5530 1.5530 1.5530 1.5530 1.5530 1.5530 1.5530 1.5530	Change +0.0001 +0.0011 +0.0012 -0.0012 -0.0012 -0.0012 -0.0012 +0.005 +0	1.551 1.552 1.554 1.554 1.554 1.554 1.554 1.554 1.554	8 1.5 0 1.5	6W 1734 1296	15,586 642 32 10,550 4 1 1 ** apress v vension 2.15	78.9 8.77 19 57,8 1,00 8
op G.I for D.I for O.I for O.I for O.I for O.I for ONDOW	REST	0.8585 0.8625 0.8606 UNREA (N 0.7568 0.8082 F/AU	+0.0008 +0.0008 +0.0001 +0.0008 +0.0008 TES 7 days notice	0.658 0.662 25,000 pa 0.798 0.802	8 0.6 5 0.8 7 8P- 6 0.7	950 	13,436 126 23 11,400 108 37 Sky norths	34,724 2,089 311 36,747 1,274 95 One year	Sep Dec Mari Sep Dec Mari Jul 1 Spain Jul 1	S EU	1.5462 FOPE Ecu co 1624 0.7922 2.1521	0.9165 0.8285 0.8382 1.5488 1.5500 1.5580 1.5580 1.5580	Change +0.0011 +0.0011 -0.0012 -0.0012 -0.0013 -0.0013 +0.0011 -0.0013 +0.0011 -0.0011	1.551 1.552 1.552 1.552 1.554 Change on day -0.117 0.000281	8 1.5 0 1.5 0 1.5 0 1.5 0 1.5 -0.	6W 1734 1286 1286 1280 1280 1280 1280 1280 1280 1280 1280	15,586 642 32 10,590 4 1 1 % spread v urealler 2.15 1.41	78,1 8,7 11 57,1 1,0

		TOLT	EC							CURRE			_	•
UK INT	14:13	I RAI	*					Jul 10	Ecu cen.	Rute acmiret Ecu	Change	% 4/- from	% spread v wowled	
LONDO	N MO	NEY RU	1153						rates,		ou quy	Design Training		
Jul 10		Over-	7 days	0.0	Trees	Sk	One	Spaln	162,493	181.085	-0.117	-0.87	2.15	6
		night	notics	mengh	months	months	year	tretand	0.792214	0.780713	+0.000231	-0.38	1.00	2
		54 - 4	562 - 5 ⁴ a	54 - 54	54 - 54	512 - 513	61. 685	Netherleads	2.15214	2.14889	-0.00058	-0.15	1.41	1
Interburk Ste	und .	24 - 4	975 - 9-8	54 - 5E	5H - 54	5월 - 5월 5월 - 5월	64 - 55 54 - 52	Belglom	39,3960	39,4514	+0.0088	0.14	1.12	-1 -3
Sterling CDs			-	50 - 5	54 54			Gentleme	1.91007	1.91403		0.25	0.00	-3
Treasury Bills				50 - 55	541 - 546	54 - 54		Remark to	13,4389	18,4791	-0.0008	0.28	0.74	-3
Barok Balls		53 ₄ - 55 ₉	54 - 54	54 - 54		3 3	6 - 5%	Portugal	195.792	196.808	-0.088 +0.00034	_	0.05	-10
Local authori		54 - 54	B ¹ 5 ⁵	24-25	-04-04	04.04		Remo	6.40608	6.48361		1.21 1.26	0.00	-9
Discount Mar				_				Decount	7.28580	7.37761	-0.00195	140		-5
LIN cleaning &	penk barr	fending sta	s 5% per c	A mort true	mo 6, 1986			NON EFFM #						
_			Up to 1	1-3	3-6	6-0	9-12	Greece	292,867	300.897	+0.052	2.74	-1.44	_
			MORE	माठवरीर	months	- MOREN	MICHELE	litaly:	2200.18	1928.12	+0.08	-8.45	10701	-
		0.00%	210	51/2	. 5	5	434	UNC	0.790052	. 0.810382	+0.00025	3.02	-1.71	_
Certs of Tax Certs of Tax of					4	_		Box control rate	wast by the En	ropeas Comme	be Ceresia	are in descript	ng referen sin	rgit.
Certa of The di Ave tonder rat	op. under i	700,000 is 2	4817pc. EC	GO fload rat	a Stig. Export	Pinerce, Me	fee up day	Percentage che	On an its Es	u; a positive char	Ge discusses n	the arrival state	megares ex	
Ann 10nder 120 Jun 28, 1996.	en caco.	tor period J	d 24, 1996 t	o Aug 25. 18	96, Schemen	6 & W 7.20p	c. Reference	for a currency.	no apressor and	to bininging bear binoughly ages	comme de-tal	od of the carrier	y's market at	in from h
Jun 28, 1996. o	Jun 1, 199	P2 Full C4	1998. Schan	W W A V 5.	985pc. Ameni	ومحداد و	a Pade Opc	Fou cectral man		-				
								117/9/92) State		options	BAL Adult	MAN COLUMN	SA LINE LANGE	il Floren,
THREE O	NONTH S	TERLING.	PUT LINES	(LIPPE) E	200,000 poir	the of TODA	<u> </u>	E PREAME	CAMPA SEE S		201,23U \$280			
	Орел	Soft price		High	J'OM.	Est. vot	Open Int.	Bolica		– c i ms –	_		PUTS	Seo
_		94.31	+0.02	94.32	94,30	9577	87138	Price		Ang .	Seep	Jel		
Sap	94.31	94.23	+0.04	94.25	94,20	17120	88601	1.520	2.61	2.01	3.27	0.03	0.17	0.43
Dec	94.21	93.63	+0.07	93.95	93.88	12171	81589	12000	1.86	2.27	2.54	0.04	0.38	0.59
Mar		93.48	+0.07	93.50	98.43 *	9205	44717	1.540	0.91	1.実	1.95	Q.10	U.69	1.04
Jnu .	93.44	93.05	+0.08	93.06	98.00	3126	22116	1.550 .	0.22	1,05	1,41	0.30	1.12	1.51
Sup Also insided on	93.00			r previous d				1.580	- 0.08	0.82	0.006	1.04	1.71	2.15
								Previous day's	HOL, Chaffs 4,814	Puis 2,756 . Po	r, day's open i	ot., Calls 155.70	1 Pets 130,79	9
-	75/1.17	a OPTION	S (LIFFE) S	500,000 pc	oints of 100	¥ .	<u></u>							
		CA				PUTS		I THREE	CHLUH EAR	DOOLLAR (M	ed Stat bour	2 01 10076		
Strike Price	Set	, D	C	Mar	Sap	Dec	Mar	1	Open L	atest Chao	e High	Low		Open in
	0 13		9 0	2.71	0.07	0.21	0.50	Seo	94,06 9	4.13 +0.0	5 94.15	94.08		401,182
9425	0 00	,		1.10	0.22	0.35	0,67	Dec	98.73 9	3.80 +0.0	98.82	93.78		439,542
9450	= = = = = = = = = = = = = = = = = = = =	0.7	ra 1	1.05	0.46	0.55	0.87	Mar	93.54 · 8	3.82 +0.0	93.64	93.54	61,918	278,042
8475 Ect. vol. (otal,	0.0	Dog 5717	Providental dis	y's open but.	, Cuits 12388	7 Puts 1000	61					-		
Est. vol. total,	Cate 5094	PES OF IT.						E US THEA	THE VIEW	FOT LINES IN	4) \$1m per 1	00%		
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KOREA LIBERALISATION FUND stional Depository Rectipts representing 100 Ordinary stares

Notice is bereby given to the IDR holders that the members of the Korea sation Fund Limited declared a distribution of USD 0.03 per Ordinary cord date for this dividend was 18th June 1996.

As of 12th July 1996 payment of coupon number 5 of the international Depositary Receipts will be made in US Dollars at the net rate of USD 3.00 per

Payment will be made upon surrender of the relevant coupon at any of the wing offices of Morgan Guaranty Trust Company of New York:

60, Victoria Embenkment, London EC4Y 07P Mainner Landstrasse 46, D-60325 Frankfurt-am-Main, Germany

and with the Depositary at the address indicated below: Depositary: Morgan Guaranty Trust Company of New York

Avenue des Arts 35, Brussels 1040, Belgium JP Morgan

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FORD MOTOR CREDIT COMPANY

U.S. \$ 300,000,000

FLOATING RATE NOTES DUE APRIL 10, 2001 In accordance with the provisions of the above men-

- tioned Notes, notice is hereby given as follows: Interest period: July 10th, 1996 to October 10th, 1996
- Interest payment date: October 10th, 1996
- Interest rate: 5.8375% per annum ■ Coupon amount: US \$ 149.18 per note of US \$ 10,000
 - US \$ 1,491.81 per note of US \$ 100,000

Agent Bank A LUXEMBOURG HE



St. George Bank Limited
[manufacilid in New South Wales)
AC.N. 055 613 070 U.S. \$250,000,000 Floating Rate Notes due 2000

Notice is hereby given that for the Interest Period 9th July, 1996 to 9th October, 1996 the Notes will carry a Rate of Interest of 5.87422% per autum. The Interest Amounts payable will be U.S. \$150.12 per U.S. \$10,000 Note and U.S. \$1,501.19 per U.S. \$100,000 Note. The Interest Payment Date will be 9th October, 1996.

Bankers Trost

Company, London

Agent Bank

-0.00

USD 140,000,000 CRI INSURED

MORTGAGE ASSOCIATION INC. Guaranteed Secured

* LIFFE Adures also traded on APT

Floating Rate Notes duc 1998

Interest Pate 5.98875% Interest Period July 10, 1998 October 10, 1998

Interest Amount due on October 10, 1995 per USD 38,482.14 USD 596.99

BANQUE GÉNÉRALE DU LUXEMBOURG

☆ IRUSH PERMANENT

\$100,000,000 Floating rate notes 1998

Notice is hereby gloen that for the interest period from 9 July 1996 to 9 October 1996 the notes will carry an interest rate of 6.1125% per annum. Interest payable on 9 October 1996 will amount to £153.65 per \$200,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

to process simultaneously up to ten thousand incoming calls. When investors telephone they will be able to receive a 3, 5, 7, or 10 minute parrative on the fund of their choice in ten different languages. We plan to have one thousand funds in our galaxy of funds from around the world. It is our mission to bring the customer and fund together. Investors who are viewing our television broadcast 24 bours a day, 7 days a week, can pick up the phone and call a local number from anywhere in

A three trillion dollar mutual fund market. One out of every four American homes invest in mutual funds. We are developing a television network that will reach 60 million households. This network will be able to process simultaneously.

cays a week, can pick up the phone and call a local number from anywhere in America. The network will switch the call up to the satellite and down link to be answered by one of our ten thousand telephone ports and then switched into the fund's sales office.

If you are interested in If you are interested in joining the Stocks and Funds Television Network galaxy of funds and Coming to America, we

welcome your inquiry. For further information, please contact: Mr. Roger Miller at 1727 Clifton Road NE. Atlanta, Georgia, U.S.A., (Voice) 404-315-9541, (Fax) 404-315-9423. Serving Investors in Over 150 Countries

NOTICE OF BARLY REDEMPTION COLLATERALISED MORTGAGE SECURITIES (NO 12) PLC

£55,000,000 Class A Mortgage Backed Floating Rate Notes 2028 (the "Class A Notes")

£8,250,000 Class B Mortgage Backed Floating Rate Notes 2028 (the "Class B Notes") NOTICE IS HEREBY GIVEN that all of the Class A Notes and the Class B Notes (together the "Notes") will be redeemed by the Issuer on 31 July, 1996 (the "Optional Redemption Date"), pursuant to Condition 5(D) of the respective Terms and Conditions of the Notes. The Notes will be redeemed at their Principal Amount Outstanding together with accrued interest to the Optional Redemption Date.

Payment of principal and interest will be made against presentation and surrender of, respectively, the Notes and Interest Coupous relating thereto at the principal affice of Margan Guaranty Trust Company of New York, London Office or the principal office of Banque Genérale du Luxembourg S.A., Luxembourg. COLLATEBALISED MORTCAGE SECURITIES (NO 12) PLC

By: Morgan Guaranty Trust Company of New York as Principal Paying Agent Dated: 11 July, 1996

BEEN LEG . A Annual contents annualized united of

The fami prices published to this ecities we shop implicitly at the Planetial Times' web pile

Selling wave sends cocoa to 3½-month low

A heavy wave of speculative selling pounded London Commodity Exchange COCOA futures yesterday, sending nearby prices below \$1,000 a tonne for the first time in three and a half months. The September delivery contract touched \$996 a tonne before closing at \$1,001, down \$50, or 5

per cent, on the day. The liquidation brought an abrupt end to the massive premium the contract had been commanding over forward

LCE robusta COFFEE futures shook off early losses to end down but off fresh near six-month lows of \$1,615 a tonne on strong New York prices and jitters over possible frosts in Brazil, traders said. "London is jumpy. Everyone

is wary about the second mass of cold air moving into Brazil. You have got to watch out but you can't get too hysterical At the close the benchmark September contract was down

\$21 at \$1.642. Traders said both Brazilian and U.S. forecasters - who are sometimes at odds - were both forecasting increased frost risk for some Brazillan coffee areas. Weather Services Corp said frosts would threaten southern Brazil by today, with lows of 34 to 37°C in northern Parana, south-west Sao Paulo and the

At the London Metal Exchange COPPER prices fin-ished on the defensive after a bout of selling during after hours trading at the end of an otherwise featureless day. Three month copper futures finished at \$1,914, down \$11

from Tuesday's afternoon kerb close but above the day's low at \$1,900. Floor traders noted bank selling during the morning ses-sion, which some linked with liquidation of outstanding Sumitomo long positions. As long as the company's position remained unclear, sentiment was likely to remain bearish,

They said copper has the potential for one more sharp rally in the short to medium term after which new supply coming on stream would send the market lower again during the latter stages of the year.

NICKEL prices fell to sixmonth lows as speculative liouidation and weakness in copper again weighed on the mar-ket. The three months price has fallen sharply from its recent peak of \$5,620 a tonne, hit on May 8. Traders attribute the retracement both to copper's heavy losses and weak physical demand during the past few months. Compiled from Reuters

Snow and floods dash Romanian harvest hopes

The wheat crop is likely to be less than half last year's bumper level, writes Virginia Marsh

R omania, central Europe's most important agricultural producer after Poland, is heading for one of its worst wheat harvests in decades, dashing its hopes of cashing in on high international grain prices for

the second year running. The country had expected to harvest about 6m tonnes of wheat this year, down from 7.8m tonnes in 1995 because of a harsh winter. However, late spring snows followed by floods and heavy rain in recent weeks, mean it may now produce just 3m to 3.3m tonnes, according to the ministry of

agriculture. Last year's bumper crop, its biggest since 1989, had enabled the country to set aside a large quantity of grain for export for the first time since the begin-ning of market-led reforms, providing it with an extra source of badly-needed foreign exchange. Although some 1.2m tonnes of last year's surplus has already been sold abroad stocks are estimated at 2m tonnes and the country is not expected to face shortages. Further export tenders due this summer have now been

The loss of much of the wheat crop is a significant sethack for the agricultural sector, which had begun to recover from a severe postcated by a serious drought in 1992, and the disruption caused

central by the break-up of farming co-It is also a setback for the

economy in general and will exacerbate the trade deficit in food and agricultural products, which last year was about \$320m, in spite of the wheat

Apart from Albania.

The return of most farmland to more than 5m former owners or their descendants under a 1991 act is regarded as one of the country's most important post-communist reforms. It has, however, led to farmland being divided up into small, uneconomical plots - the average amount returned was just

Last year agriculture provided about 35 per cent of employment in Romania and 21.6 per cent of GDP

Romania is more dependent on agriculture than any other country in the former Eastern bloc and reform of the sector is critical to its aspirations to join the European Union. Last year agriculture provided about 35 per cent of employment and 21.6 per cent of gross domestic product, compared with contributions to GDP of 8.1 per cent in Slovakia and Poland and of 3.3 per cent in the Czech Republic. Last year's 6.5 per cent increase in gross agricultural output was an important factor in the 6.9 per cent rise in Romania's GDP. Because of land restitution Romanian agriculture is now overwhelmingly private, with state farms and companies pro-

2.2 hectares, often in three of four parcels of land. Although cereal production recovered relatively quickly, the land and other reforms initially had a particularly negative impact on livestock pro-duction, with many small farmers lacking the resources to care for large numbers of animals. In addition many large state-run pig and poultry farms have faced severe financial difficulties, partly due to sharp increases in energy prices since 1989. Livestock production has begun to recover but its share of gross agricultural output has fallen from 45.6 per cent to about 39

In the private agriculture sector such problems have been deepened by delays in giving farmers full title to their the cash-strapped state, being flooded with offers. property and the absence of a land market. Only around 65 per cent of titles have been handed out so far, because of

difficulties in measuring and recording the ownership of so many plots of land and the many disputes and counterclaims. Almost all have received preliminary papers, however, and most know Independent analysts, as which plots will eventually be theirs. This has enabled farmers to pool or lease land and form larger units, but those without titles cannot use their

The development of a land market has also been held up by restrictions in the 1991 law on the buying and selling of restituted land. The Romanian parliament is considering a follow-up law which would oblige farmers to sell their land holdings to co-owners, neighbours or those leasing the property in that order. If no buyer is found in these categories then a new national rural development agency would have the right to acquire the land.

land for security against loans, restricting their ability to buy

seeds, fertilisers and equip-

However, one of the proposals is that the agency would pay a centrally-determined price for land, above its cur-rent market value which the government - a left-wing minority that faces general elections in November - con-siders too low. This could lead

to the agency, to be funded by

Agriculture already receives more direct state support than other parts of the economy with the sector due to receive 1,300bn lei (\$430m) in subsidised credits this year - a huge amount in a country where the average wage is less than \$100

well as the central bank, argued against the credits. As well as fueling inflation, the loans were generally granted too late to help with seed purchases and planting and thus substantially improve this years' crops. In the past, the subsidies have also benefitted most the small state farming sector as well as other state entities such as fertiliser manufacturers, rather than the private sector, given the difficulties of channeling loans to

millions of farmers. Analysts say that perhaps the biggest problem that remains is marketing and distribution. Until last year, in the grain sector, for example, this was handled by Romcereal, a state monopoly, which controlled storage and transport facilities and, in the absence of private competition, was able to dictate prices. This led to farmers being paid a fraction of world wheat prices.

The government has been unwilling to break up such monopolies and loosen price controls and trade restrictions that still exist for many products, partly because of concern over food security. According to official statistics, 50 to 60 per cent of the average household's spending goes on food, making shortages or changes in prices of basic items like bread and milk a sensitive issue. The bulk of fruit and vegetable purchases are made in street markets where prices are free.

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However, after Romcereal's financial difficulties last year and its inability to cope with the bumper crop, the govern-ment finally agreed to break it up into 41 companies, one for .: each county, although some of its assets have remained in a state agency. The World Bank and other advisers suggested dividing the company into even smaller units more easily able to compete with each other. However, the move is seen as a step in the right direction and the 41 companies are due to be privatised

It is also hoped that the government will introduce a more stable and transparent trade regime and system of price controls. Mr Valeriu Tabara, the agriculture minister, said recently that the sector needed \$20bn in investment to develop over the next decade. However, analysts say the frequent changes to import and export quotas and to tariffs, as well as the problems of land ownership, are deterring private

Cominco group buys into Peruvian lead/zinc mine

Cominco, the Canadian mining and metals group, has bought an indirect 12.7 per cent interest in Minera El Brocal, operator of the 2,100-tonne-a-day Colquijiria lead/zinc mine in

El Brocal also owns a poten-

LONDON METAL EXCHANGE

tial open pit mine nearby with reserves of 70m tonnes averaging 7 per cent zinc and 2 per cent lead and another property with 50m tonnes averaging 1.8 per cent copper and suited to Cominco's hydrometallurgical

studies on both properties.

Aluminium smelter stocks fall

viding just 13 per cent of last

Total stocks of all forms of aluminium at western world smelters, excluding finished end-products, fell to 3.391m tonnes at the end of May 1996, compared with an upwardly-revised 3.508m in April and 3.779m in May 1995, provisional International Primary Aluminium Institute figures show, reports Reuters.

to 1.848m tonnes from 1.917m and 2.144m. Cominco plans feasibility

which took the total to the lowest level since March 1993, had little price impact on the market, traders said. The London Metal Exchange three months delivery price closed at \$1,503.5 e tonne, up just \$1. "The market does not react the way it used to," one trader

said. "It's just watching copper Unwrought metal stocks fell The stocks decline, the latest in a run stretching back to

News of the drawdown, December 1995, was above some forecasts although there was a rise in LME warehouse stocks of some \$6,000 tonnes in May indicating an element of stock re-distribution. The producer stock fall fol-

lowed a decline in LME stocks on Tuesday of 4,950 tonnes. which was an encouraging signal although analysis say consistent terminal market declines are needed to estab-

Food Summit to tackle distribution

The problems of distribution to low-income food deficient countries, and an increase in production to meet an expanding world population, will dominate the agenda of the World Food Summit planned for Rome in November, according to Mr Jacques Diouf, director general of the Food and Agriculture Organisation of the

United Nations.

At the summit, the FAO will

the allocations of national budgets for investments in agriculture, with increased control of water so that food production is not dependent on

the vagaries of the weather, Mr Diouf said in Barbados. "There are 800m people facing starvation, 200m of whom are children under five. . . By 2030, the world population would have grown by 8bn to

8.7bn, and governments must

now address food security."

The summit will coincide with a deterioration in global food supply. After a surplus for several years, the stock of cereals is at 12 per cent of total annual consumption, leading to a 75 per cent increase in prices, the FAO chief said.

The FAO will warn that improvements to global food security must not cause overfishing and the pollution of surface and underground water resources, or soil erosion. Mr Diouf said.

COMMODITIES PRICES BASE METALS

FOUDOW M		
Prices from Amalg		
M WITHBURNEY &	L7 PURTY 🛎 🚎	(Cirrio)
	Gash	3 miles
Close	1488-87	1800-504
Previous	1485-86	1502-05
High/low	1480	1504/1490
AM Official	1480-81	1496.5-97.
Kerb close		1494-5
Open Int.	238,163	
Total delily turnover		
MALINEHELM AL	LICY IS per torre	<u> </u>
Close	1240-45	1276-80
Previous	1245-80	1280-85
High/low		1275
AM Official	1240-45	1277-79
Kern ches Open int.	5.436	1270-76
Total daily turnover		
I LEAD & per ton		
Close Previous	793-4 791-2	794-5 794-5
Hien/low	401-5	795/791
AM Official	793-04	793.5-94.0
Nerts close		791-92
Open int.	32,644	
Total daily turnover		
BINCHEL & PET H	(CENTE)	
Close	7405-15	7520-25
Previous	7475-85	7590-95
High Tow AM Official	7435/7430 7430-35	7570/7480 7550-58
Kerb close	1-20-03	7480-70
Citien Int.	41,993	1400 10
Total daily bimover	9,087	
TIN (\$ per tonne	t1	
Close	6320-30	6365-70
Previous	6335-46	6385-90
High.Tow		6370/6330
AM Official	6300-10	6350-55
Kerb close Open int.	16.268	5350-60
Total daily turnover		•
E ZINC, special hi		ionnei
Close	998-99	1026-27
Previous	1005 5-6.5	1033-34
High/low		1029/1030
AM Official	1000-1000.5	1029-28.5

Spot. 1.5505 3 miller 1.5504 6 miller 1.5522 9 miller. 1.5541 BI HIGH GRADE COPPER (COMEX) -1 30 92.60 90.50 -1 10 91.20 90 10 89.70 -1:10 91.40 A9.40

1965-00

COPPER grade & 15 per tonn

1923-24 1923-25 1930/1900 1922-23 1912-13

PRECIOUS METALS \$ price 382 90-383 10

247.227 484.234 248.683 483.461 Day's High 384.25-384.55 Day's Low 382.50-382.80 Provious close 382.70-363.10 Loco Ldn Mean Gold Lending Rates (Vs USS)

1 month _____423 6 months4.23 12 months US cts equiv

512.00 518.60 525.30 347.20 539.90 Qeid Coins Krugomand Maple Leaf \$ price 382.5-385.6 MO.60-363.10 E equiv. 247-249

Precious Metals continued TE GOLD COMEX (100 Troy az.; \$/troy az.) 382.6 -0.1 - 10 10 383.4 -0.1 385.4 385.0 25,403 86,680 385.1 -0.1 386.5 386.4 155,7,165 -0.2 390.9 398.4 -0.2 395.2 395.2 -0.2 395.2 395.2 427 8,859 122 5,778 27,965 197,471 R PLATRIUM NYMEX (50 Troy oz.; \$/troy oz.)

-0.5 382.1 391.5 220 825 +0.1 386.8 394.0 2.407 21.415 +0.1 386.5 397.5 16 2.887 - 402.2 402.2 81 2.272 - 407.5 400.7 12 54 1,01 250 PALLADIUM NYMEX (100) Troy oz.; \$/broy oz.) - 121.30 132.70 200 6.700 - 126.00 134.30 12 967 - 12 - 125.00 135.00 - 12 - 518.0 509.0 12.774 57.257 - 526.1 517.5 500 22.257 - 526.1 626.5 234 6.277 - 5.408

13,502 00,079 ENERGY M CHUDE OR NYMEX (1,000 DAYER S/DAYER 21.38 35.612 84.487 20.68 16,771 48,712 20.02 35 36,317 19.48 1,527 24,596 19.12 3,817 30,938 20.11 -0.06 1964 -0.08

19.24 +0.02 19.09 18.83 1,559 22.286 Lament Dingris Open price change liligh Low Vol. lot 19.54 +0.01 19.75 19.05 +0.05 19.19 19.54 14.479 32.972 1905 +0.05 1919 19.05 11,585 68,136 18,61 2,511 23,867 18.75 18.61 2,511 23,867 18.25 18.29 18.20 18.00 +0.11 18.02 17.90 867 14,622 17.72 40.06 17.73 17.85 385.11,170 30,316 172,760 HEATING OIL KIMEX (42,000 US gails.: £15 gails.) 35.15 9,704 55.70 +0.10 55.30 56.54 5.881 13.904
55.05 +0.10 55.45 56.00 925 6.590
56.25 +0.05 56.70 56.25 991 7.424
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20,959143,653

178.75 +4.00 179.25 176.25 7.055 173.50 +2.75 174.50 172.25 8,047 177.50 +2.50 172.51 170.75 2.361 9.573 170.50 +2.00 171.57 170.25 558 3.636 170.00 +2.50 170.75 169.75 260 1,782 169.50 +2.00 170.00 169.25 605 8.550 NATURAL CAS NINEX (10,000 mmBtz. StemBtz.) 2775 +0.036 2.730 2.706 18.075 39.111

GRAINS AND OIL SEEDS MINEAT LCE (L pur invent 111.75 +1.10 112.06 110.40 41 126 110.00 +0.10 110.10 110.00 15 395 111.85 -0.10 112.00 111.75 153 2,971 113.88 - 114.00 113.76 115.70 -0.15 116.00 115.85

491.25 -0.25 422.00 456.80 1,728 3,732 482.00 +1.00 423.50 487.00 12,055 32,989 483.00 42.00 483.50 482.50 10,422 25,083 487.25 +1.00 484.00 422.00 882 4,986 484.00 -484.00 484.00 14 186 489.00 +2.00 489.50 482.50 10,482 487.35 +1.00 489.00 482.00 882 484.00 - 484.00 464.00 14 424.00 +3.78 484.00 418.80 129 MALES CRT (ILDOO IN INTO CENTS/5855 DESINA 101.00 -6.00 535.50 530.00 E-12 8.722 408.25 42.50 413.30 405.50 15.301 76.534 259.25 41.01 100.50 141.75 34.60175,762 364.50 44.50 398.00 381.50 2.080 26.704

103.80 +0.70 103.60 103.00 105.26 +0.25 105.50 105.36 107.25 +0.25 107.26 107.23 110.00 +0.00 - -111.76 +0.25 112.00 112.00 785.75 +12.25 786.00 751.50 853 8,270

M SOYABEAN OIL CET (60,000bs; certs/b) 21.18 *0.25 25.20 24.76 3,593 3,054
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MYMEX (42,000 US gads; CUS gads.)

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1,346 407 170 5,355

797.90 +17.25 798.90 780.50 2,720 4,657 792.90 +15.75 794.90 775.90 12.963 32,821 772.25 +13.75 773.80 757.90 1,116 11,188 757.50 +12.25 758.90 743.96 31,038 106,404

+3.3 262 244.0 2.174 7.654 +3.5 247.0 242.8 8.674 22.130 +3.6 245.6 240.8 1,331 10,939 +3.9 241.5 236.7 467 5,990 +3.7 239.7 234.1 6,019 23,836 72 295 1,309 3

■ FREIGHT (SEFFEX) LCE (\$10/Index point) +5 1095 1081 +15 1090 1070 +12 1130 1115 +3 1055 +15 1690 +12 1130 +10 1230 -6 1235 -20 1234 Close Pres 1124 113

FUTURES DATA All Adures data supplied by CMS.

Nets and Seeds
Prices from Keniko Group; USS a tonne, iransen pistachos 28/50 raw (in shelli naturally opened fround; 1995 crop 3,300 CFR/FOT MEP, steady. US almonds (shelled); New crop of 530m ib will be of average yield, with nonpareil variety under 50%; very little carryover from 1995 crop supected; 23/25 NPSSR AOL 5,975, shipment first half September, 5,775 shipment end-Sept/Oct; standard 5%,555 shipment end-Sept/Oct; standard 5%,355 shipment end-Sept/Oct; attacherd 5%,355 shipment Sept/Oct = all FAS California; new crop 5,950 CFR India for Second halt of 1996. Turkish hazefult kernels, 13/15 standard 1s, 1995 crop, 2,850 FOB MEP, up slightly; new crop et 2,800 FOB MEP.

-55 1012 868 347 674 -50 1042 898 3,421 42,932 -20 1008 1011 1,155 42,809 442 20,180 188 11,817 1,882 186,786 1386 1340 28 136 1386 1381 4.025 31,766 1425 1414 807 12,503 1445 1438 710 15,081 1460 1460 1 6,677 1465 1465 1 5,902 -35 -20 -19 -17 -12 -9 E GOCOA (CCC) (SCRTWorks

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506 2,557 160 3,856 56 343 9 203 1,727 18,236 119,70 -3.30 118,60 115,55 115,00 -2.00 118,75 114,80

VOLUME DATA Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CST. NYCE, CME, CSCE and IPE Crude Oil are one day in arears. Volume & Open Interest totals are for all insided months. INDICES RESTERS (BOSC 18/8/31-100) dul 9 thouth ago year ago 2002.8 2005.5 2296.7 CRB Futures (Base: 1967-100)

Jul 8 trionth ago 249.29 no

GSCI Spot (Base: 1970=100)

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57,860 +0.576 57,860 87,2892 4,860 34,895 68,675 +0.85 68,700 69,175 3,800 27,894 68,925 +0.46 86,950 98,525 1,726 12,995 58.200 -0.25 58.500 57.528 1,588 3,446 66.729 +0.025 55.925 55.200 3,854 18,317

2.900 +0.125 53.000 52.90 50.071 +0.12 56.100 54.476 77.025 - 77.175 76.900 75.000 +0.225 76.500 76.500 83.400 +1 0.000 12.000 780 1.514 60.300 +2 01.00 78.00 2.00 15.55 80.225 +1.2 80.500 78.300 378 1.149 80.700 +1 0.000 378 5.149 81.475 +0.5 80.700 20.000 8 69

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LONDON SPOT MARKETS

\$215-217 \$87-89 \$165-152 \$200-202 Heavy Fuel Off Nachtha S181-182 M NATURAL GAS (Pence/to 13.36-19.70

Potroloum Argus. Gold (per troy oz) Saver (per troy oz) Platinum (per troy oz.) 510.00c +1.第 95.0c 45.00c Lead (US prod.) Tin (New York) 15.51r 295.50 Cattle (live weight) Sheep (tive weight) Pigs (live weight) 100.78p VIRE 111.71p 120.80p Lon. day sugar (raw) Lon. day sugar (wie) Barley (Eng. leed) Malze (US No3 Yellow) Wheat (US Dark North) \$317.40 \$384.50 Unq Unq-Unq-Rubber (Aug)¶ Rubber (Sep)¶ Rubber (KL RSS No1) 91.50p 91.50p

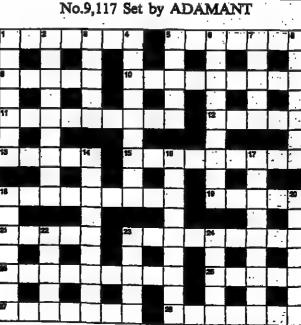
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Coconut Oil (Pnijs) Palm Oil (Malay.)§ Copra (Pnijs) Soyabeans (US) Cotton Outlook 'A' Index 25J) +2.5 \$472.5z \$525.0w 213.0 Woottops (64s Super)

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CROSSWORD



l Bar the Leghorns, for exam ple, accepting first Wyandotte
(7)

ibordinate theme (7) 9 Extremist leaders united Lib-erals to resist autocracy (5) 10 For Americans, however, it's most stupid (9)
11 Reckless legislature half redevelops the centre (4-5)
12 Deliveries of outsize coat for rettring minister (9) retiring minister (5) 13 Arrive at a stretch of the

river (5) 15 OK Sam! What wretched weapons? (9) Priend swallowed the story (not newl) supposedly (9) 19 Run into numb fear (5) 21 Cancel the credit in the loan 22 Sort out setting for duck

23 Women with the airs, we are 23 told, of the French monarchy 24 Nothing in the mass left in. 25 Someone in charge initially arranged to save money (9)
26 It comes back to the Teutonic beast (5)

27 Is extremely friendly after short day, please (7) 28 Shows respect for instrument carried by crack troops (7) DOWN 1 Clean up on the exchange?

2 Deluge after change in the boundary (9)
3 In the end the city produced the animal (5) 4 Had a mouth-watering expe-

E contracting on the contraction

5 Play for time at the booth (5) Promised the union the debtor would sort things out

the world (5) 8 Those who believe in the gold medal winners? (7) 14 Intellectuals, having got drunk, squabble among the books (9) 16 Is a New York district allowed to provide flower

girls? (3,6)
17 Small piece on Tuesday evening, maybe (9)
18 Replies to a news broadcast on the Royal Society (7)
20 Wants dress that is preceded. 20 Wants dress that is remodel-

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LETTER OF CREDITS

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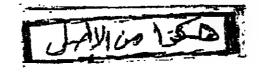
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Offshore Funds

FINANCIAL TIMES	THURSDAY JULY 11 1990	*	
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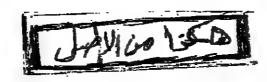
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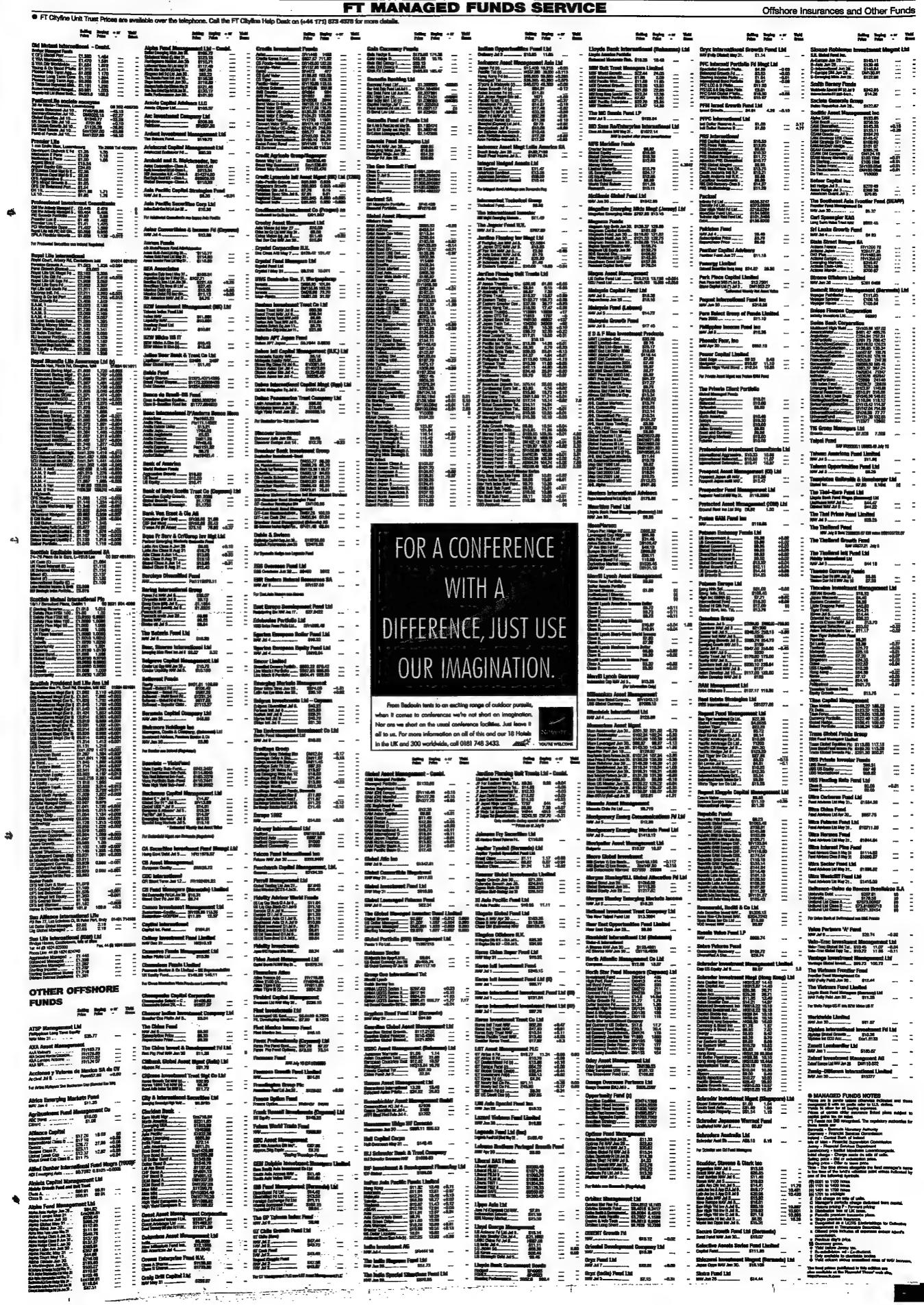
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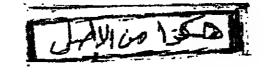
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UK shares successfully fought off

the effects of a weak opening by Wall Street and managed to end the session with good gains across the leading issues, still sustained by hopes of a further reduction in UK interest rates before the next general election.

By Steve Thompson, UK Stock Market Editor

The bullish feeling about domestic interest rates continued to filter through from Wednesday's summer economic bulletin issued by the UK Treasury. That showed a downwards revision of gross domestic product growth and an increase in the current year's public sec-

tor borrowing requirement. The FT-SE 100 index ended the session a net 13.5 higher at 3,765.8, some 5 points above its level before

the 115-point sell-off on Wall Street last Friday evening. There was no real enthusiasm surrounding the market's secondliners, where the FT-SE Mid 250

London dealers acknowledged the market's resilience in the face of Wall Street's latest ifttery performance, which came in the wake of a steep slide in Motorola shares. They dropped 20 per cent shortly after the New York opening following poor second-quarter figures, released late on Tuesday.

"The market feels fine at the moment, but that is not to say we will not mirror any further bouts of weakness on Wall Street," was the view of one head trader.

UK equities ignore early sell-off on Wall Street

Another senior dealer, at one of the European securities houses, said the performance of global equities would be determined by bonds, which maintained their recent good showing.

Treasury bonds were around a quarter of a point higher not long after US markets opened yesterday, while gilts made steady, if sedate, ss during the day.

The Dow Jones Industrial Average, burdened by the retreat in technology stocks, was down more

than 20 points within minutes of hands as the big argument over valthe start of trading in the US and off 35 points an hour after London

LONDON STOCK EXCHANGE

The real disappointment for traders came in the continuing low level of genuine activity. Turnover at 6pm was 725.9m shares, with non-FT-SE 100 issues accounting for around 55 per cent of that figure. Volume was inflated by 58m shares traded in Graystone, one of the penny stocks. But there was

stocks, in which the institutions hold substantial stakes Hanson was a case in point, with in excess of 36m shares changing

bined with a broker recomme

dation to push East Midland Electricity 15 higher to 570p.

brokers, ABN Amro Hoare

Govett, reiterated its buy note

on the stock, arguing that it

and could rise 10 per cent from

yesterday's opening price. Additionally, Hoars high-

lighted the company's funda-

mental attractions, with or

without a corporate approach.

However, there was also a

return of bid hopes, which

focused on Houston Industries

of the US, making an offer.

East Midland said it had not

General Accident and Com-

mercial Union rose 7 to 642p

and 4 to 567p respectively as

Merrill Lynch reiterated its

buy stance on the two stocks.

Analyst Mr Steven Bird said

the two companies had the

strongest life operations in the

sector. The broker also raised

received a bid

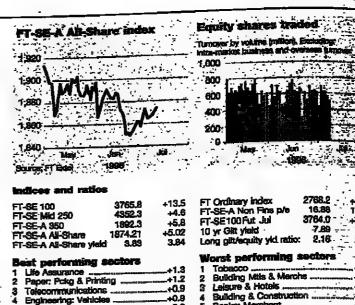
One of the company's own

some aggressive two-way trading in

a number of the large-capitalisation

uations pre- and post-demerger continued to rage. The conglomerate's shares drifted back again as the market fretted over the possibility of big US shareholdings being sold into an unwilling market.

The celiular phone stocks were also heavily traded, and weakened in the light of Motorola's results. Dixons, the high street retailer, was the best performer in the FT-SE 100 after delighting the market with a 20 per cent increase in the dividend total, while GKN, the engineering group, was given a lift by Merrill Lynch, the US brokerage, whose global legions of salesmen marketed a big buy story.



FUTURES AND OPTIONS

C P C P C P 166½ 1½ 117 3½ 72 7½ 165½ 1½ 127 3½ 19 3½ 3 1 187 22 145½ 37½ 114½ 52 200½ 33½ 31½ 50 130½ 57½ 1225½ 50 130½ 57½ 1225½ 50 174 54½

Onts 11,158 Pets 11,463

FT-SE 100 BADEX PUTURES (LIFFE) 525 per full index point

Open Sett price Change High

3764.0 +13.0 3784.5 +13.5

FT-96 MED 250 INDEX FUTURES (LIFFE) \$10 per full index point

M PT-SE 100 REDEX OPTION (LIFFE) (13786) £10 per full index point

4280.0 4353.0 +3.0 4280.0 4280.0

Broker move hits Hanson

A bearish note from NatWest Securities sparked a bruising tug of sentiment at top conglomerate Hanson and turnover in the stock jumped to

36m shares. The broker reiterated "reduce" advice to clients and lowered its trading valuation for the shares to 153p. This compares with valuations of 200p and above by some leading brokers.

The stock, which has lagged behind the market by 20 per cent since demerger plans were announced in January, finished the day 2% lower at 169p, where the yield is now pressed right up against the 9 per cent

There were also worries yesterday that, given Wall Street's recent wobbles, the continued drain on sentiment could shorily destabilise Hanson's US shareholder base. This extends to some 30 per cent of

the company. NatWest's valuation downerade stems from weak trading and cashflow, a fall in UK electricity valuations and a rising tax charge at chemicals group

The Hanson selling sparked suggestions of switching into Tomkins, which moved forward 7 to 2850 in turnover of 5.4m, making a three-day gain

of more than 6 per cent. The market's blue touch paper was lit by an intriguing statement from Shell Trans-

port early yesterday. The company said it would make an announcement concerning its chemicals business at 3 pm. It has been known for ne time that Shell is seeking to address problems in its chemicals operations and the

statement led to a flurry of speculation that encompassed heavy cost-cutting and the possible demerger of the whole chemicals arm. There was also talk of a significant deal with BASF, of Germany. The shares shot forward to

record a gain of more than 18p, at that point the biggest rise in the Footsie. However, the announcement that Shell had signed a non-binding letter of intent to form a worldwide petroleum additives joint venture with Exxon Chemicals proved disappointing. The stock slipped back to finish only 5% ahead at 943p after substantial volume of more than 8m shares.

Mr John Toalster of SGST commented: "This is a useful development but it is not major. It only represents 5 per cent of Shell Chemicals' turnover last year."

Merrill Lynch issued a hardhitting buy note on engineering leader GKN and the stock advanced 28 to an all-time high

Merrill, a long term buver of the stock, expects strong results next month when the interim figures emerge, and moots the possibility of profit upgrades later in the year. It predicts positive news flow on orders, notably from West land, and argues that GKN is now more than ever a strongly

split under consideration for some time. "With the stock comfortably above £10, this could happen at any moment. said Merrill analyst Mr Adam

Collins. GKN is relatively tightly held, and yesterday's 1.4m turnover was well above average. A share split is seen as making the stock more market-

able and less volatile. A drop in second-quarter profits from Motorola, the US igh-tech giant, which partly blamed poor mobile phone handset trading for its slack earnings outturn, hit sentiment at Vodafone and Orange. Combined volume for the

two was 38m shares, with Vodafone off a penny at 236%p and Orange down 21/4 at 204p. BT continued to rebound. The shares spiked higher once Wall Street started trading. and the stock closed 6% up at 351p in 8.4m traded.

Takeover speculation com-

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DRANCIAL	TIME	25 EQ	UTTY	MDIC	88			
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dirary litera inde:	aires co	aplation:	righ SHB6.2	19/04/96	iew 48,4	28/08/40.	Days Date	E 1/7/36.
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9.00 10.00 11.00 12.00 13.00 14.00 15.00 16.00 High 2767.5 2764.5 2768.2 2768.0 2767.0 2769.0 2771.1 2768.1 2767.8 2771.2 2767.8 Jul 10 Jul 9 Jul 6 AU 6 Jul 4 Yr mgo SEAC bargains Equity turnover (Cmit Equity bargainet Shares traded (mit) 32,026 1525.1 36,586 515.1 27,742 1708,2 85,248 624,2 23,145 29,123 1623L5 \$0,965 24,815 1580

AUTO July 2015 July Vraco "High

It predicts positive news flow	FY-SE AMM 1075.10 For 1996.	1077.10 1079.20 1096.20 100	51.60 = 1140.49 055.7U
on orders, notably from West- land, and argues that GKN is	E London merket d	ptn	
now more than ever a strongly contra-cyclical, core holding. The broker also reminds cli- ents that GKN has had a share	Same 1,522	Total Lows 41	Total contracts 48,207 Calle 24,708 Pute 28,801

composite sector as a whole to "neutral" from "underweight" eisure group Rank Organiing updates. sation was the worst performe

in the Footsie yesterday, falling 11 to 482p as the stock reacted to a profits downgrade from ARN Amro Houre Govett, The broker said the stock is "overvalued" and published a

detailed note designed to pre empt the results of the strategic review, due to be announced next month along with interim figures. Hoare downgraded current year profit. expectations by £18m to £453m.

its recommendation on the

Dixons rose 14%p to 530p following annual results at the higher end of forecasts. Analysts were impressed by sales for the first 10 weeks of the current year. Several upgraded forecasts, with Panmure Gordon, for example.

increasing its estimate from 2162m to 2180m, excluding property disposals.

Kingfisher improved 6 to 641p on the back of Dixone' figures. The group has also impressed analysts with a

presentation on plans for Christmas. Analysis were not impressed by Storehouse, which said at its annual meeting that gross margins were being maintained, not improved. Storehouse fell 6 to 315p.

Building materials leader Wolseley closed at the bottom end of the Footsie rankings with a decline of more than 2 per cent. The shares came off 10 at 442p, but volume was modest and traders said there were no obvious stories in cir-

The group meets analysts for a trading round-up early next month, and recent feedback from the sector suggests that trading is proceeding smoothly But Wolsele per cent of operating profits from North America where some analysts fear a rise in interest rates.

In contrast, Rediand, with its This Links, Rouse is broken stor curves of concerns. See US Dollar. See

added 6 to 415p ahead of next week's round of half-year trad-

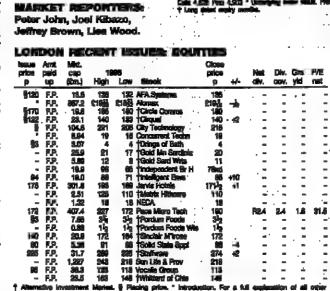
Laporte, the speciality chemicals group, added 9 at 709p after raising £23.5m through

BSkyB rose another 5 to 4730 as it was revealed that Kirch. of Germany, is interested in taking a stake in the satellite Kirch and BSkyB announced

plans earlier this week for a digital pay television alliance in Germany Glaxo Wellcome appreciated

12 to 891p on positive reports ing out of the Aids confer ence in Vancouver that the company is close to marketing its own triple Aids therapy.

MAINST REPORTERS



† Alternative investmen symbols please ruler to	t Moriest. The Land	Pleciri on Shan	g price. Service	introduc noins.	illon, For a 1	till expla	nation of all other
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Ametrologia (7)	225E.73	-1,5	2304.43	2814.43	2.65	21.17	2027.34 2142.78
Horiz America (12)	1675,32	+8.8	1824.25	1753.57	0.74	66.70	2186.38 1468.94
Copyright, The Financia	Times Li	reflect 18	16, TT 4	old Miner	Index" is a	tenderen.	rk of The Pinenoisi

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FT-SE Mid 250	4352.3	+0,1	4347,7	4339.5	4367.2	3755.0	5.42	1.74	20.97	14.35	1756
FT-484 Mad Apply on the Transport	4389.2	+0.1	4386.6	4879.8	4406.9	3760.1	3.61	1.79	18.94		
FT-SE-A 350	1892.3	+0.8	1886.5	1881.5	1884.8	1711.4	3.90	2.05	15.56	46.68	1585.
FT-SE-A 350 Higher Yield	1811.7	+0.4	1804.3	1798.5	1800.5	1711.7	5.23	1,92	12.45		
FT-SE-A 350 Lower Yield	1980.1	+0.2	1975.9	1971.7	1976.4	1713.5	2.69	2.31	20.12	38.39	1374.
FT-SE SmallCap	2166.43	-0.2	2162.75	2171.00	2100,10	1880.40	9.02	1.73	23.92		
FT-SE SmallCap ex law Truets	2166.65	-02	2171.77	2175.86	2187.23	1850.84	3.20	1.82	21,47		
T-SE-A ALL-SHARE	1874.21	+0.5	1889,19	1864,78	1988.75	1689,37	3.83	2.04	18.00		
E FT-SE Actuaries All-	Share										
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15 Oil, Integrated(3)	4223.96 3649.31		3638.22				3.92	2.52 1.72	18.50 1		
		+0.3		3621.08	3612.40	2883.G3	3.92	1.72	18.50	B1.84	1612
15 Oil, Integrated(3) 16 Oil Exploration & Prod(15)	3649.31 2470.27	+0.3	3838.22 2470.30	3621.06 2469.32	3612.40 2475.32	2883.G3 1985.99	3.92 2.13	1.72 1.58	18.50 37.18	81.84 34.94	1612 1487
15 Oil, Integrated(3) 16 Oil Exploration & Prod(15) 20 GEN INDUSTRIALS(276)	3849.31 2470.27 2023.51	+0.3	3638.22 2470.30 2018.87	3621,08 2469,32 2016,24	3612.40 2475.32 2024.18	2883.63 1986.99 1984.16	3.92 2.13 4.26	1.72 1.58 1.88	18.50 37.18 15.58	81.84 34.94 46.85	1612 1487 1111
15 Oil, Integrated(3) 16 Oil Exploration & Prod(15)	3649.31 2470.27	+0.3	3638.22 2470.30 2018.87 1183.77	3621,08 2469,32 2016,24 1184,48	3612.40 2475.32 2024.18 1193.33	2883.63 1986.99 1984.16 966.18	3.92 2.13 4.26 3.51	1.72 1.58 1.88 1.68	18.50 37.18 15.58 21.26	81.84 34.94 46.85 21.83	1612 1487 1111 969
15 Oil, Integrated(3) 16 Oil Exploration & Prod(15) 20 GEN BROUSTHALS(276) 21 Building & Construction(34) 22 Building Matts & Mercin(28)	3649.31 2470.27 2023.51 1178.62	+0.3 +0.2 -0.4 -0.6	3638.22 2470.30 2018.87	3621.08 2469.32 2016.24 1184.48 1892.64	3612.40 2475.32 2024.18 1193.33 1899.45	2883.03 1986.99 1984.16 966.18 1809.92	3.92 2.13 4.26 3.51 4.07	1.72 1.58 1.86 1.68 1.73	18.50 \$7.18 15.58 21.26 17.78	81.84 34.94 46.85 21.83 47.17	1612 1487 1111 969 956
15 Oil, Integrated(3) 16 Oil Exploration & Prodit(5) 20 GEN IMDUSTRIALS(276) 21 Building & Construction(34) 22 Building Matte & Mercha(25) 23 Chemicals(25) 24 Diversibed Industrials(19)	3649.31 2470.27 2023.51 1178.62 1879.95	+0.3 +0.2 -0.4 -0.5 +0.8	3638.22 2470.30 2018.87 1183.77 1891.01 2426.03	3621.08 2469.32 2016.24 1184.48 1892.64 2415.99	3612.40 2475.32 2024.18 1193.33 1899.45 2422.62	2883.03 1986.99 1984.16 966.18 1809.92 2452.93	3.92 2.13 4.26 3.51 4.07 4.08	1.72 1.58 1.88 1.68 1.73 1.96	18.50 37.18 15.58 21.26 17.78 16.62	81.84 34.94 46.85 21.83 47.17 61.99	1612 1487 1111 969 956 1168
15 Oil, Integrated(3) 16 Oil Exploration & Prodi(16) 20 Birth Industrials(276) 21 Building & Construction(34) 22 Building Matte & Mercha(26) 23 Ofernicole(25) 24 Diversified Industrials(19)	3649.31 2470.27 2023.51 1178.62 1879.95 2444.67	+0.3 +0.2 -0.4 -0.8 +0.8 -0.2	3638.22 2470.30 2018.87 1183.77 1891.01	3621.06 2469.32 2016.24 1184.48 1892.64 2415.99 1544.35	3612.40 2475.82 2024.18 1193.33 1899.45 2422.62 1553.54	2883.03 1986.99 1984.16 966.18 1809.92 2452.93 1851.30	3.92 2.13 4.26 3.51 4.07 4.06 6.76	1.72 1.58 1.88 1.68 1.73 1.96 1.69	18.50 37.18 15.58 21.26 17.78 16.62 10.92	81.84 34.94 46.85 21.83 47.17 51.39 56.29	1612 1487 1111 969 956 1166 858
15 Oil, Integrated(3) 16 Oil Exploration & Prod(15) 20 GEN INDUSTRIALS(279) 21 Building & Construction(34) 22 Building Matis & Mercha(59) 23 Chamicals(29) 24 Diversified Industrials(19) 25 Engineering(71) 26 Engineering(71)	3849.31 2470.27 2023.51 1178.62 1879.95 2444.67 1539.22	+0.3 +0.2 -0.4 -0.8 +0.8 -0.2 +0.8	3638.22 2470.30 2018.87 1183.77 1891.01 2426.03	3621.06 2469.32 2016.24 1184.48 1892.84 2415.99 1544.35 2311.89	3612.40 2475.32 2024.18 1193.33 1898.45 2422.62 1553.54 2301.75	2883.03 1986.99 1984.15 966.15 1809.92 2452.93 1851.30 2013.09	3.92 2.13 4.26 3.51 4.07 4.06 6.76 3.33	1.72 1.58 1.88 1.88 1.73 1.96 1.69 1.60	18.50 37.18 15.58 21.26 17.78 16.62 10.92	81.84 34.94 46.85 21.93 47.17 61.99 56.29 17.87	1612 1487 1111 969 956 1166 868 1205
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	A ALL-SHAFE			1874.21	+0.5 1	959,19	1884./8	1968.75	1669,37	3.83	2.04	18.00	. 45.21	1584.64
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28 P	aper, Pckg & F	- Maring Care	1	2635.68					3125.79	3.89	1.99		58.05	1104,60
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	CONSUMER GO			3591.07					3285.10	3.90	1.87		81,57	1333.88
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40 S	ERVICES(255)			2534.28					2115.69	2.82	2.01			
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	ransport(22)	-		2359.17					1866.69 2812.70	1.89 3.45	2.25		31,94	1567.88
	TELTIES(98)			2297.83						_	1,47		54,52	991,21
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	as Distribution	2		1248.39				29/22/ 1207.99	2410.2B	6.36	2.50	7.88	201,84	1262.17
	elecommunicati			1922.45				1207.89		9.61	1.36		66.67	653.74
	fater(12)			2143.89				2163.54		6.17	1.79 2.33		12.56	875.56
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	enks, Retsi(5)	-		4095.87 3595.79				4053.29		3.80	2.89	11.37	110.04	134R A4
	surence 23	-		1422.18				3635.31		2.75	261	17.44	63.39	1147.58
	surance(23) Se Assurance(5)			3401.83	+1.3 99	10.64 1 50 10 1	1415.89	1415.12 3388.12	1324.11	5.81	3.18	6.78	48,33	1078.44
	thur Financiel(2			25000.774				3622 <u>.</u> 28		4,39	2.24	1271	100.72	1426.07
	roperty(41)	-		1521.64				1515.45		4.18	1.81 1.27	17.14	62.05	1492.15
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. Time of FT-SE 100 Day's High: 220 PM Day's low: 830 AM. FT-SE 100 1996 High: 3857.1 (19494)93) Low: 2964.2 (234

Sincere Navigation Corporation corporated as a company leased by shared in Talwara, Republic of Cities NOTICE to the holders of the outstanding

Sincere Navigation Corporation (the "Company") U.S. \$36,000,000 3.75 per cent. Bonds due 2003 (the "Bonds")

NOTTICE IS HEREBY CIVEN to the holders of the Bonds that the Annual General Meeting of the Company by a resolution dated 25th May, 1996, approved the issue of 18,796,750 shares of the Company's Common Strick for free distribution to shareholders as a dividend. which has been approved by the Securities and Exchange Commission of the Munstry of Finance, the Republic of China, effective 26th June. 1946. The Board of Directors has fixed 29th July, 1996 as the record date by the determination of the shareholders entitled to receive such In idend and free distribution. Pursuant to the provisions of the Indenture constituting the Bonds, the Conversion Price of the Bonds has been adjusted as a result of the above issue from NTD35.00 to NTD32.71 effective 30th July, 1996 (Republic of China time).

Sincere Navigation Corporation

The People's Construction Bank of China US\$70,000,000 Tranche A Floating Rate Notes due US\$50,000,000 Tranche B

Floating Rate Notes due For the interest period from 11 July 1996 to 13 January 1997 the Notes will bear interest as Trenche A at 6.52969% per

Thanche B at 6.42969% per Interest payable value 13 January 1997 will be as folio Tranche A: US\$337.37 per US\$10,000 Note LS\$3,373.67 per LS\$100,000 Note: Tranche #: US\$332_20 per US\$10,000 Note

US\$3,322.01 perUS\$100,000 Note.

Agent: Morgan Guaranty Trust Company

JPMorgan

Guaranteed Step-Up Floating Rate Notes due January 2001 For the interest period 9th July, 1996 to 9th October, 1996 the Notes will carry an interest rate of 6.17422% per annum, with an interest amount of U.S. \$78.89 per U.S. \$5,000 Denomination Note and U.S. \$1,577.86 per U.S. \$100,000 on 9th October, 1996. Lined on the Laxenbourg Stock Est Company, London Asset B

Cheung Kong

Finance

Cayman Limited

U.S. \$500,000,000

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FG Valores y Bolsa S.A. SVB WISHES TO ANNOUNCE THAT

Within the framework of the agreements reached between Merrill Lynch Europe PLC and FG Inversiones Bursatiles, S.A., Merrill Lynch Europe PLC will incorporate the securities company in our country which will be called Merrill Lynch Capital Markets España, S.A. Once it has been registered in the relevant registeries this company will carry out the activities and services provided at present by PG Valores y Bolsa, S.A., S.V.B. Accordingly, FG Valores y Bolsa, S.A. requests your permission to carry out out the procedures necessary in relation to the securities and cash balances registered in your name in our company so that these balances can be registered in your name in Merrill Lynch Capital Markets España, S.A., S.V.B. as soon as this company begins its activities. Unless we receive express instructions from you to the contrary before July, 20th 1996, we shall assume that you give your permission to carry out the actions necessary.

If you should have any queries or require additional information related to the abovementioned matters, please contact our client relations department at FG Valores y Bolsa, S.A., S.V.B., Calle José Ortega y Gasset, 29, 28006 Madrid (Spain) or call the following numbers: 578.01.98 or 435.72.33.

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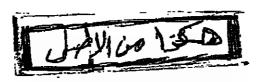
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	FINANCIAL TIMES THURSDAY JULY 11 1996	*
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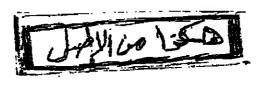
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effect hits **US** stocks

Wall Street

Poor trading news from Moto-rola upset the technology secthe US stock market, writes Maggie Urry in New York.

By 1 pm, the Dow Jones Industrial Average had fallen 32.88 to 5,548.98 and the Standard & Poor's 500 was 4.68 lower at 650.07. The American Stock Exchange composite lost 4.85 at 561.82. NYSE volume was 237m sheres

The sell-off in technology shares particularly affected the Nasdaq composite, which fell 15.54 to 1,138.05 by lunchitme, a drop of 1.3 per cent. The Pacific Stock Exchange technology index was down 1.8 per cent.

conductors and telecommunications equipment, had announced a sharper than expected fall in second-quarter earnings after the market closed on Tuesday, and said it would cut back its expansion plans in the face of softening demand and falling prices for chips. Its shares had closed at \$66% on Tuesday, but fell some

\$6 in after-hours' trade. The shares dropped further in morning trading, to show a loss of \$8% at \$57%, a decline of 13.4 per cent from the previ-ous chicial close.

Motorola's woes weighed on other stocks in the sector. \$48%, IBM was \$% lower at \$98%, and Hewlett Packard \$% down at \$87. On the Nasdag market, Microsoft lost \$1% to

South Koree

\$1% at \$72% and Sun Microsystems dropped \$1% to \$52. Concern about the outlook for earnings in the health sector put pressure on prices there. United Health Care fell \$1% to \$44%, down 3.6 per cent; shares of Wellpoint Health Net-works declined \$1 at \$30%.

Within the Dow's 30 shares after British Airways said it might postpone a \$10bn order for new aircraft if its pilots' strike went ahead.

News from Procter & Gamble of a 12.5 per cent dividend increase and a \$1bn share repurchase plan initially lifted the shares \$1%, before they were caught in the general market malaise, and fell \$% to

Carrieda

Toronto was slightly higher at midsession, supported by stronger golds, and doing its best to ignore Wall Street's influence. The TSE-300 composite index was 3.84 higher at 5.080.50 in volume that had picked up from the average of recent days to 42.5m shares.

Latin America

MEXICO CITY was making headway at midsession as investors took encouragement from Tuesday's good performance. By midsession the IPC index was up 18.57 at 3,104.25. SAO PAULO took profits following a 2.4 per cent gain in the previous session, and the Bovespa index was down 858,

or 1.3 per cent, at 64,022.

over week

902.97

751.74

517.58 226.91

510.99 263.69

57.90 108.59

277.53 99.85 350.19

146.22 73.12 244.15 178.19 165.35

FT/S&P ACTUARIES WORLD INDICES

NATIONAL AND REGIONAL MARKETS

Hong Kong (59)

Medico (18)...

Europe Ex. UK (510)

emerging markets: IFC weekly investable price indices

Smith Barney, the US broker, has revised its ratings for Latin American equity markets, upgrading Chile and Colombia and reducing its recommendations on Argentina and Brazil. At the same time, it has maintained an outperform rating on Mexican

equities.

Mr Peter Treadway, an analyst at Smith Barney in New York, said that over the long run he was relatively optimistic on virtually all the Latin American equity markets. On Argentina, which was downgraded to neutral from outperform, Mr Treadway said that, over the next six to nine months, he would defer to the prevailing view that the dollar-linked economy would see its equity market slowed by fears about US interest rates. As for Brazil, also reduced to neutral, he noted the market had experienced "a big run as of late, powered by good earnings from, and privatisation hopes for, Telebras". Mr Treadway believed that Chile, upgraded to an outperformer, had seen the worst case scenario on copper prices come true in a few weeks, thanks to Sumitomo.

MI Treadway believed that Chile, upgraded to an outperformer, had seen the worst case scenario on copper prices come true in a few weeks, thanks to Sumitomo. A recent downgrade on Colombia had been based on fears of significant US retaliation as a response to the expected exoueration of President Samper for any responsibility for receiving drug trafficking funds in the 1994 Liberal party election campaign. The retaliation had not materialised and was now looking less likely, which had led to an upgrade for the market to outperform. Mexico was the riskiest call, but price/earnings ratios were relatively low, the market had underperformed recently, and the broker thought that output and earnings estimates would continue to be revised upwards.

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European tumble

By Michael Morgan

The rout of Motorola on Wall Street, after Tuesday's lower than expected results, spilled over to European high-technology stocks, with Nokia and Ericsson in particular marked down sharply early in the day. Motorola reported that secand-quarter profits dropped to 54 cents a share, from 79 cents

with consensus market expectations of 69 cents. The US company blamed weakening demand and prictors, coupled with start-up and depreciation from

a year earlier, and compared

Mr Neil Barton at Merrill Lynch said that, adjusted for a European context, the problems reported by Motorla were applicable to the European high-technology

"There is no reason right now for people to be buying these shares," he said. "There is also a question mark over whether it is too late to sell. The downside is limited, but why would anybody be buying or owning them over the next three months? Longer term,

however, we like them all." Nokia fell 7.6 per cent in early Helsinki trade before recovering some of the lost ground to close FM7.60 off at FM170.00. In Stockholm, Bries son lost SKr7 at SKr137.50. The ADRs of both companie traded in New York, were also sharply lower.

Elsewhere in continental Europe, Philips lost Fl 1.10 to Fl 54.90 in Amsterdam, while Frankfurt saw Slemens 58 pfgs down at DM81.27. In Paris, Alestel retreated FFr7.90 to FFr436.1 and SGS-Thomson dropped FFr4.50 to FFr177.50.

Local currency terms
July 5 % Change % Change
1986 over Week on Dec 195

553,266,74

1,415.56

1,256.87 1,137.61

5,518.01

116.13

1,317.42 159.33 213.15

high-techs Mannesmann rises on DBKom success

The German federal railway's 2.573.00. Volume was DM10bm decision to sell its 49.8 per ZURICH extended its run of decision to sell its 49.8 per cent stake in DBKom, its telecommunications subsidiary, to a consortium which included Mannesmann took

The market, which had for the previous few days been expecting Thyssen to win the bid, consequently marked Manmann up to a session's high of DM539, before profit-taking left it a net 10 pfgs easier at DM534.70. Thyssen surrendered DM4.50 to DM233.

FRANKFURT by surprise.

In the Ibis, there was a different picture as Mannesmann moved ahead to DM549.20 and Thyssen shrank to DM284.30. Deutsche Morgan Grenfell

in a recent report on Mannes mann, said that DBKom offered an extensive nation wide network, would immediately bring in cashflow with Deutsche Bahn as a corporate customer, and provided a right of way to virtually every town and city in the country.

There were negative factors, however, said the broker, including the cost of ungrading and configuring the network since most of it was copper wire rather than fibre optic. The Day finished 5.25 firmer at 2.567.43 and the Ibis at record highs, led by renewed strong demand for Roche. The SMI index rose 14.6 to 3,788.00 as the market over-

bond market opened firm. Roche certificates, which had sions, rose SFr110 to SFr9.600.

figures today.

unaware of any special reason EMS Chemie, due to hold a.

House charges came a hesitant start and

underperformed in recent seswith some investors said to be switching out of the Novartis partners after their strong run. Sandoz gave up SFr6 to SFr1,423 and Ciba was steady at SFr1,522; both companies plan to release six-month sales

Nestlé, heavily traded again. slipped SFr6 to SFr1,480 on profit-taking.

UBS bearers consolidated recent strong gains in the morning before rumours that the bank was to hold a news conference sourced the shares SF18 higher to SF11,277. The bank said later that no confer-Swiss Re added SFr20 at SFr1,256, but analysts were

news conference tomorrow, picked up SFr150 to SFr5.400

FT-SE Actualies Share Indices THE EUROPEAN SERES 13.00 - 14.00 15.00 Closs Open 10:30 11:00 12:00 FT-BE Barolanck 100 1690.90 1690.14 1690.48 1690.41 1690.74 1690.15 1691.10 1690.83 FT-BE Barolanck 200 1732.01 1732.02 1731.99 1732.73 1732.05 1732.71 1732.72 1732.75 activity picked up after the US J# 8 Jel 9 1700.35 1734.01 1709,78

> on speculation that the group might announce a new share

> buy-back plan or go private. Esec, the high-technology group which announced the takeover of Zevatech, of the US, on Tuesday, lost SFr200 to SFr5.200 after trading as high as SFr5,500 early in the day.

> PARIS had some good performances in the financial sector. notably Société Générale, up FFr18, or 8.3 per cent, at FFr559, where activity was helped by a strong bond market and a report from the banking commission calling for further restructuring in the sector. BNP rose FFr5.10, or 3 per cent, to FFr181.10.

> The CAC-40 index did little-however, edging ahead a scant 5.28 to 2,081.85. Turnover came

Both Cerus and Valeo were.

mer that it was to make a FFribn convertible bond issue, which was taken as signalling that it would have less reason to dispose of its 28 per cent stake in Valeo, the car compo-

nents manufacturer. Cerus dropped FFr11.60 to FFr7.20 lower to FFr275.80. Docks de France rose FFr8 to FFr1,230 as investors decided that it would have trouble fending off a hostile takeover hid from Auchan, a privately

owned group.
AMSTERDAM moved lower overall, and Heineken's Fl1 loss to F1 379 was following the trend rather than reacting to news that the brewer was to withdraw its activities from

Myanmar. The Dutch group had made a \$30m investment in the country some 18 months ago, and had decided to leave largely because of the country's human rights record. The Aex

index lost 2.24 to 554.52. Royal Dutch, which hit a session high of Fl 266.30, closed with a gain of 80 cents at Fl 263.40, after announcing a petroleum additives joint venture with Exxon, of the US. Ahold lost 70 cents to F19180

as it extended its offer for

Printer ...

A STATE OF S

Service Pici

Stop & Shop to July 19. MILAN edged slightly ahead in late trade, after a thin business, as political litters prompted many investors to hold back ahead of a crucial parliamentary vote on the government's budgetary measures.
The Comit index rose 0.49 to 654.25, while the real-time Mib-

tel index picked up from a low of 10,418 to finish 10 higher at 10.437. A L574 tumble to L20,371 in Benetton, the clothing group,

was attributed to market expectations of a warrant Eni, the state energy group, rose L72 to L7,632 and Montedi-

son was Li5.1 higher at LSGS.9, with the recoveries in both attributed to futures hedging.

Written and edited by Michael

Rate worries keep Nikkei on downward path

Toloro

The Nikkel average fell for the fifth consecutive day as worries over a rise in interest rates prompted a sell-off by financial institutions, writes Emiko

Terazono in Tokyo. The 225-share index lost 140.88, or 0.6 per cent, to 21,778.94, after moving between 21,757.54 and 22,041.80. Shares gained ground in the morning due to the overnight rise in US shares. Semiconductor stocks were initially bought owing to an improvement in the supply and demand figures in the US semiconductor market; but arbitrage-linked selling emerged in late trading and, along with profit-taking by domestic and foreign institu-

tions, eroded the early gains. Volume was 322m shares, against 200m. The Topix index of all first section stocks fell 9.15 to 1,658.17 and the Nikkel 300 lost 2.11 to 306.90. Deckines led advances by 596 to 410, with 199 issues unchanged.

index put on 0.03 at 1,477.01. The rise in short-term mone market rates above the official discount rate, currently at 0.5 per cent, triggered new feers over a shift in the Bank of Japan's monetary policy. Meanwhile, some investors were unnerved by the yen's rebound against the dollar following reports that US business leaders had expressed concern over the US currency's recent ascent.

Car shares were lower, with Honda Motor down Y70 to Y2,710, Toyota Motor losing Y60 to Y2,640 and Hino Motor lining Y40 to Y1.060.

SOUTH AFRICA

| Dollar | Starling | Vert | Index | I

263.39 283.15 185.92 270.70 265.39 270.47

242.69 231.60 170.02 192.77 204.09 252.43
210.27 200.57 147.50 187.01 184.29 213.30
301.43 287.63 211.16 239.42 262.77 305.61
184.08 185.51 114.94 130.32 116.70 177.01
183.21 174.78 128.34 145.52 142.30 190.57
283.68 246.94 181.35 205.62 258.24 269.52
191.35 162.71 134.18 152.14 159.94 194.86
283.62 270.54 198.09 225.28 244.57 296.68
184.57 175.06 129.30 146.80 146.78 187.59
205.83 187.39 144.98 164.36 176.46 213.05
241.54 230.40 169.21 191.85 228.81 247.55

Equities closed firmer, with industrials boosted by positive sentiment spilling over from the bond market. Golds advanced on expectations of terlies, and a stronger bullion price. The overall index rose 24.7 to 6,937.9, the industrials index was up 4.9 to 8,184.3 and the golds index gained 29.5 at 1,896.6. De Beers added 75 cents to finish at R150.

stocks initially gained ground, but later fell on fears of the yen's rise. Toshiba lost Y6 at

Y759 and NEC Y10 at Y1.180. Large-capital steels and shipbuilders retreated on profittaking, with Nippon Steel relinquishing Y6 to Y351. Banks were weak on fears of

> trial Bank of Japan fell Y30 to Y2,540 and Sumitomo Bank slipped Y30 to Y2,040.
> Oil refiners were among the day's gainers and firm crude oil prices helped the sector, Showa Shell Sektyu ristng Y20 to Y1,110 and Cosmo Oil

> a rise in interest rates. Indos-

adding Y7 at Y695. Some speculative issues surged on active buying: Takashima, a trading company, jumped Y100 to Y778 and Kawai Musical Instruments

rose Y85 to Y610. in Ocaka, the OSE average of 29.5m shares. Nintendo, the video game maker, rose Y50 to Y8.020 on bargain hunting.

Roundup

Heavy profit-taking depressed TAIPEI and left the weighted index off 102.64, or 1.6 per cent, at 6,225.59. Turnover amounted

Leading the way down were. Formosa Plastics, off T\$3.5 to T\$56. and Formose Chemical Fibres, T22 cheaper at T233.4. However, some high-technology stocks saw minor rebounds after heavy profit-taking earlier this week. Taiwan Semiconductor firmed 50 cents to T\$52.5 and Systex ended T\$1.

ahead at T\$26.6. WELLINGTON was helped higher by a bond market rally and news that Brierley Investments, up 4 cents at NZ\$1.42. possible float of its Thistle botels chain in the UK. The NZSE-40 Capital index moved up 12.75 to 2.116.93 in

turnover of NZ\$54.7m. Power New Zealand rose 15. cents to NZ\$6.40 after Mercury Energy lifted its offer for a 7 per cent stake held by Velley Power to \$7 per share.

SYDNEY was supported by the gold shares sector as the All Ordinaries index made 5.8 to 2.201.1 and the golds sub-index advanced 1 per cent. Against the trend went Boral, off 7 cents to A\$3.11, while BHP, which reached an intra-day high of A\$17.42, fin-

ished steedy at A\$17.27. SEOUL continued to be driven by rumours that the Finance Ministry planned measures to help the stock market. and the composite index finished 0.74 higher at 858.79 after

hunters and profit-takers. Analysts noted a lot of speculative buying, especially in smaller stocks, in the belief

that the ministry was considering allowing second-tier stock to be bought on margin. Currently, margin loans are available only to those in the first SINGAPORE followed Wall

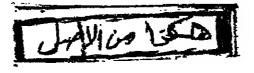
Street higher. The Straits Times industrial index put on 14.98 at 2.230.42, but much of he action was seen in Malayman over the counter shares. HONG KONG ended lower, after spending much of the session in positive territory, prompting speculation that European investors had chosen to take some profits. The Hang Seng index turned back from a high of 10,992.91 to close 17.87 weeker at 10.911.76 in volume that picked up to HK\$4.4bn.

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position to take advantage of the prodigious economic growth taking place there. This degree of strength and commitment is something you can always expect from HSBC Asset Management. Together with the rewards that come with it.

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virtually all of whose plants

have been in Maharashtra, says that the company's recent

decision to site a new refrigera-

tor plant in Punjab state was

partly determined by wage costs, which Mr Godrej says

are an eighth of those in

Greater Bombay, For similar

reasons, Coca-Cola recently

decided to relocate its corpo

concentration, while a magnet

for some investments, also in

some cases gives cause to

locate elsewhere. Mahindra

and Mahindra's decision to

locate its new plant in Tamil

Nadu, for example, is under

stood to have much to do with

the fact that Maharasthra, and

north-west India in general, is

already saturated with car pro-

ducers. M&M thus took the

view that it wished to launch

the Fiesta in the south where

its greenfield plant will have

If there is a growing trend,

bankers and businessmen say

it is towards industrial invest-

ments moving away from the

concentration around Greater

Bombay, perhaps to developing

or often out of the state alto

gether. Though it is not all

one-way traffic. Pune, for

instance, is fast emerging as a

software centre to rival Banga-

lore in the south, where grow-

ing congestion, increasingly

grave power problems and a

rising shortage of trained engi-

neers have prompted an over-

spill to Maharasthra's conge-

Mr Pawan Kumar, president

of the software division of

Fujitsu-ICIM, which is already

based in Pune, says 30-40 soft-

ware companies have recently

opened branches or started

businesses in the city. He fore-

sees the present 2,000 software

employees in Pune rising to

more than 10,000 by the turn of

Nevertheless, it has begun to

dawn on Maharashtra's admin-

istrators that the state cannot

sit still and expect a happily

rising curve of investment pro-

possis. "We are aware that we

have got to keep up our pace of

development and facilities at a

higher pitch," says Mr Dinesh

Afzulpurkar, the state's senior

public relations, particularly

On one level, it is a matter of

nial second city.

the century.

more of a greenfield market.

Maharashtra's industrial

rate headquarters in Delhi.

MAHARASHTRA

Dominant position under challenge

As India proceeds with reforms, Mark Nicholson asks whether the state's politicians and

on success.

Francisco - Service - Service

bureaucrats have chosen the right priorities to reach the new objectives

ndia's third largest state, its undisputed financial centre and industrial powerhouse, has been taking a few knocks to its pride lately. "Is Maharashtra Losing Out?" was the coverline on a recent issue of Business India, the country's leading business

The story was pegged on the fact that the state suddenly appeared to have missed out on a clutch of new investment megaprojects. It was backed up by figures from the authoritative and independent Centre for Monitoring the Indian

1960-81 82-83 84-85 86-87

Per capita state and national income

Economy showing that, under way in Maharashtra, equally suddenly, Maharashtra even if the values are greater had been overtaken by Guja in rival states. But there are had been overtaken by Gujarat, Karnataka and Orissa in the gross values of investments approved or under implementa-

The magazine's cover carried an anxious looking Mr Manohar Joshi, the state's chief minister, decked in the totemic bright saffron of the Hindu religion. The clear subtext was that perhaps the year-old Hindu nationalist government of Shiv Sena and the Bharativa Janata party had been deterring investors - notably foreign investors. Did they not. after all, "cancel" the \$2.5bn Dabhol power project immediately on taking office, "scrap-ping" the biggest foreign investment in India, largely for political reasons? ·

The government subsequently renegotiated the Dabhol project, which is now awaiting central government approval. And state leaders dispute the CMIR figures, claiming there are more projects

88-89 90-01 99-93

India's question. Just this year, for example, a host of big automotive invest-

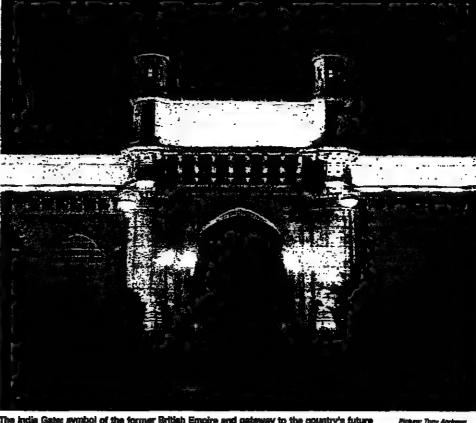
ments have been directed outside the state, which has traditionally been India's auto industry capital. Mahindra & Mahindra, the otherwise Maharashtra-based vehicle maker which has tied up with Ford, decided to site its \$600m plant to build the Fiesta model in the southern state of Tamil Nadu. Hyundai, the South Korean carmaker, also said it would set up its new \$1bn car Carmakers Volvo, Daihatsu and Honda have plumped for manufacturing in other states. So is Maharashtra's industrial pre-eminence threatened?

The answer, on examination appears to be not immediately. but that India's five-year-old ceeded in creating such strong competition among India's leading 20 states for fresh investment that Maharashtra cannot rely alone for its future industrial momentum on its traditional industrial leader-

The question therefore is vhether the state's politicians and buresucrats are as alive to India's post-reform challenges as their state rivals elsewhere in the union.

And the ventict of the state's tusiness, bankers and analysis on this question is mixed: there is some concern that Maharaahtra might perhaps be sitting on its laurels.

There is no disputing Mahareshtra's present industrial preeminence. The state's 80m peoole, less than 10 per cent of India's population, produce 23 per cent of the country's output. The state's chemicals. metals, rubber and plastic industries each account for more than a third of India's total production. Its citizens pay 40 per cent of all the income tax collected in India.



and its companies 25 per cent promises considerably to raise of all corporate tax. Its infrastructure, though

stretched; is rivalled by few states. Maharashtra remains essentially immune from the power cuts crippling output elsewhere in India; the state boasts two big container ports and better telecoms than almost anywhere else. New telephone connections, for which there can be a wait of up to two years in India, are available in Bombay almost on demand - "which is a total communications revolution in India," says one Bombay

Moreover, Maharashtra's government, and certainly its bureaucracy, is highly esteemed for its efficiency and pro-business orientation. The state's finances are sounder then almost any other Indian state and its finance ministry has in the last year quietly reformed its sales tax - the primary source of self-generated revenue in all Indian states - into a value added tax which

the tax take over the next few years. World Bank economists consider it a highly desirable model for others.

For all such reasons, and notwithstanding disputed league table figures, Maharashtra remains top of most investors' lists, and particularly foreign investors.

British, American and German trade attachés all say that the state is the first stop for ber one, and will continue to be number one," says one western diplomat, "because it's got the goods: the infrastructure the power, the roads, all the

ocal investors take the same view, according to a comprehensive recent poll of 150 of India's biggest companies compiled by Business Today magazine and Gallup. Maharashtra topped the list of investor-friendly states, well ahead of rivals Gujarat, Tamil Nadu and Karnataka held manufacturing groups,

and coming first or second in a list of 19 selected criteria for investment decisions, from physical infrastructure, power and proximity to ports, down to social infrastructure, work ethic, law and order and politi-

cal stability. The exception in the list was labour costs, which in Greater Bombay - the core of Maharashtra's industrial base - are among the highest in the comtry, a function partly of the area's exorbitant property prices, but also of growing transport congestion and other living costs.

Which is where some of the questions start to arise. If Maharashtra is beginning to see difficulties sustaining its industrial and commercial lead, many are simply the consequence of its considerable past industrial development - and the attendant higher costs and congestion.

Mr Jamshyd Godrej, managing director of Godrej & Boyce, one of India's biggest privately-

IN THIS SURVEY

Politics: the role of the Shik Sena party

Industry: ambitious plans to

preserve lead Sicom: the activities of the

state's industrial and investment corporation Page 2

Nasile a varied and developing industrial zone

Investment other sta are catching up

Dabhol power project: politically complicated

Roads: a long way to go before improvement

The Konkan Railway: the Ports: new state privati

tion policies ● Map Office apage: in strong

demand Property: a 30 per cent

alide in prices slowe Penalco: the measuring

Investment

Film industry: the Bollywood dmem machine

with regard to the perception of Maharashtra among foreign

investors after the Dabbol Since renegotiating the deal,

Mr Joshi and his colleagues have striven to paint a more foreign-friendly face. It is symptomatic of the change in outlook that Mr Joshi allowed himself to sport a Pepsi baseball cap at the recent commissioning of the US group's new production line in the state. More substantially, though,

it is a matter of policy. Business has broadly welcomed the government's new trade and commerce policy, announced in December last year. But many business leaders suggest the government has been with practice. "They speak about making a single window for investment approvals, says one husinessman. "But they still have a long way to go before this single window is not just an additional win

Continued on Page Vi

Long before we had become

citizens of the world, our dream took shape

here...

Maharashtra The leading state of India in terms of industry and prosperity. And, also a home to the Tata Group, the largest private sector group in

But like every mega industrial house we have also had a modest beginning Before we won international acclaim as the largest private sector group in India. For us, the loundation of the Tata Group dates back to 1868 when it was founded by lamsetji Tata. Whose pioneering industrial spirit found its way over a century ago. With a textile mill in Nagpur in Maharashtra

There has been no looking back since.

While the turnover of the integrated Tata Group amounts to nearly US \$6.9 billion today, some of the companies are industry leaders in steel, power, commercial vehicles, chemicals, cement, information systems, hotels, quartz watches and tea. A few of them also have a firm foothold in Maharashtra. Like the Tata Engineering and Locomotive Company, Tata Electric Companies, The Taj Group of Hotels, Voltas, Tata Consultancy Services, Special Steels, Rallis India and Tata Honeywell. Standing tall on the basic foundations of innovation, integrity and quality.

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STEEL-SHIPPING-OIL & GAS-POWER-FINANCE-TURNKEY PROJECTS-TRADING



ESSAR*i*

A positive attitude

ESSAR HOUSE, 11, Clarke Road, Opp. Race Course, Mahalaxmi, Bombay 400 034.

previous Congress state gov-

ernment, it has firmly put its

ally, the BJP, in its place by

insisting that foreign invest-

ment is welcome in any sector,

whether it is for cold drinks,

chewing gum, or potato chips.

A powerful lobby in the BJP

has been insisting that foreign

investors should not be

allowed into "low priority" sec-

tors such as fast foods or hux-

ury items. "We would like to

achieve overall growth and

prosperity, and for that, we are

clear that we have to take

advantage of every source of

help, whether it is from home

or abroad," says Mr Desai.

There is no doubt that we are

nationalistic, but our doors are

open to international co-opera-

tion for mutual benefit, as long

as we don't sacrifice our sover-

eignty. Shivaji, our saint,

encouraged trade with the Brit-ish, French and Dutch three

centuries ago, but warned his

lieutenants that they should

We feel the same towards for-

industrialists, who initially

feared that the new govern-

Bombay, which houses a majority of large Indian and

multinational companies, and

accounts for 80 per cent of all

stock market activity in India.

will be promoted as an interna-

Time-wise, we are ideally placed between Tokyo, London

and New York, and there is no

reason why Bombay cannot

become a powerful interna-

tional financial centre." save

Mr. Dake. Since mean thus built.

of the city's 18.5m people live

in slums, these areas will be

"redeployed and redeveloped",

The state government has

ambitious plans for road privatisation and the opening up of

sea routes along the state's

coastline. Right of the state's

48 ports will be privatised. A

ing programme to utilise water

resources in the optimum man-

ner for irrigation schemes is

unrehensive water-harness

according to the minister.

tional financial centre.

not be allowed political power.

Tiger's fangs are blunted

Shiv Sena's nationalism seems to have been tempered by its accession to power

Power seems to have blunted the fangs of the ferocious tiger that is the emblem of the Shiv Sena party. The organisation, which was notorious for its rabble-rousing nationalistic fervour which has sparked off riot after riot in Bombay since its inception in 1966, seems to have donned a more responsihie mantle after having assumed power in Maharashtra in March 1995 in alliance with the Hindu right-wing Bharatiya Janata party.

"We have been given a great responsibility by the people, and we are working very hard

erwise they will not vote us hack to power," says Mr Sub-hash Desai, ideologue and general secretary of the Shiv Sena. The law and order problem has improved substantially since we took over the state, and our chief, Mr Bal Thackeray made it clear that there is

a task for each and every Shiv

Sainik (Shiv Sena member) to

to fulfil their expectations, oth-

perform. Mr Thackeray, a former cartoonist and journalist, is an unlikely patron saint for India's most industrialised state. There was a time when this self-professed Hitler admirer posed for photographs

under a tiger baring its fangs. Today, the founder of the Shiv Sena, who claims to run the state covernment "by

mal office) stares benignly from laminated photographs which adorn all the government offices in Mantralaya, the state government seat.

The Shiv Sens (literally, army of Shivaji, which in the 17th century fought the Mughal king Aurangzeb) was founded in the state in 1966 to zalvanise unemployed youth in Maharashtra to protest against outsiders" (mostly Indiana from the southern states of Tamil Nadu, Kerala and Karnataka) taking johs in Bombay. The organisation was started

primarily as an anti-communist movement, to combat the strong trade unions that controlled the city's textile mills, railways and banks. The union leaders were

mostly from south India, and

they favoured employing youth from their states, thereby taking jobs away from the locals. Mr Thackeray, who changed

his name to that of the English writer he admires, had sat back and smirked in December 1992 while his followers targeted Moslems in Bombay's slums and the city burned following the destruction of a mosque by Hindu fanalics in Ayothya, "To hell with secularism if it is at the cost of the Hindus," he said. He insisted his men were only responding to the provocation by Moslems. "If you also me, why should I not hit back?" he asked. "I am no Jesus Christi'

the villages and do such good work for the people that the enough strength to rule at the central level, along with its ally, the BIP, which won the largest number of seats in national elections held in April and May, but fell short of the majority required to stay in government. Even the Moslems, who were apprehensive when Shiv Sena wrested power

But now Mr Thackeray

exhorts his cadres to go into

Congress rule, admit that the law and order situation in the state has improved. 'Our cadres are more responsible and we are being very cautious to ensure that every citizen in the state feels safe," says Mr Desai. "But," he adds hurriedly, "that does not mean we will ever tolerate injustice against the Hin-

Political expediency has forced the Shiv Sena to be more pragmatic about foreign

of the economy. "The government has no hang-ups up about foreign investment com ing into any field, as long as it is permitted by the law of the land." says Mr Yashwant Bhave, industries development

"The Shiv Sena is better for reforms than the Congress was because they are less plagued ideological conflicts within the party," says a leading Bom-

ment would rob Maharashtra of the political stability that While the government sent was its biggest asset, have no conflicting signals to industry doubts that the Shiv Sena govwhen it scrapped the controernment is now committed to versial Enson power project which had been cleared by the

free market reform "Nobody's asking questions about stability any more," says Mr Anand Mahindra, deputy managing director of the Mahindra group, the tractor. vehicle, steel and engineering company which has based most of its operations in the state. "The biggest gift of this government has been that it has not in any way eroded that

Secretary is

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Shiv Sena's critics say that the tiger has only temporarily been caged, and that the organisation's exclusionist raison d'être is bound to surface sooner or later. "The ministers still raise their hands. Third-Reich style, and salute each other with "Jai Maharashtra (Hail Maharashtra)!" says a senior trade union leader in Bombay. "They still maintain that Maharashtra is only for the Maharashtrians. They have already started imposing moral values on us, closing down cabaret joints and banning dancing girls after midnight. It is difficult to forget the violence they have perpetrated in the state even if they do support a free-market economy."

PROFILE

Scope may be too wide

One of the joints in Maharashtra's machinery to boost industrial growth and improve infrastructure is Sicom - the state industrial and investment corporation of Maharnehira - which lu 30 years has matured into a peculiar hybrid of merchani hank industrial co-ordinating agency and

consultancy. Created in 1966 as a Maharashtra government Sicom was designed as a pioneering corporatised agency to bleed investment incentives for the state's more backward arees. Two years ago the state government floated 51 per cent of Sicom's stock to give the agency commercial freedom. Since then, it has put itself in the forefront of the state's drive to draw private investment into infrastructure. In the last year alone, Sicom has taken a leading role in everything from Mahmushtra's road and ports privatisation, to forging new joint venture intra cinte sirline.

The question is whether this multi-faceted agency can prosper on a wholly from India's numerous and bigger industrial lenders. such as the giant Industrial Development Bank of India or ICICI, which are both also based in Bombay, and pulled on the other by its persisting mandate to pursue state

government policies. The newly floated Sicom has made a promising enough start. For the last reported year, the corporation, which has an asset base of Ra7.35bn. returned a net profit of Rs270m, up 45 per cent on 1993-94, largely from term

companies in chemicals. plastics, metals, engineering and most of the state's other Last year Sicom sanctioned loans totalling Rs5.3bn. dishursing Rs4.1bn, incres

respectively of 106 and 123 r cent on a year earlier. Most term lending is short or medium term at market interest rates, "We are the first such body of this type, the first to come out with packages of incentives, the first to be privatised, and the most profitable," says an mblushing Mr Vlnayak Miletras, e Sicom industrial promotion mane

But Sicom is also becoming a diversified agency, raising the question of whether it can successfully manage the huge recent broadening of its

Term lending to industry traditionally accounted for 60 per cent of Sicom's income, much of it project lending. Last year, however, such lending accounted for just under half of income, the remainder coming from short-term lending, leasing equipment financing and a limited number of direct equity investments.

Aside from lending, the mcy offers Indian and foreign investors help on projects, but with an emphasis on guiding them towards less developed parts of the state, relying on sales tax exemption incentives for locating in more "backward" areas, but also through its close inherited links with both government and the Maharashtra Industrial Development Corporation the state-run body which establishes industrial zone in such regions. "We've had quite a bit of success taking multinationals and big Indian Nagpur and Auranghad," says Mr Mhetras. But Sicom's scope is broadening. This year it is co-ordinating the first hid.

rounds for privatisation of seven minor ports. Recently, it also took an equity stake with the government in a new Maharashtra State Road Development Corporation, designed to oversee the privatising of a series of big ighway projects. In mid-August, Sicom in a joint venture with a littlerin undisclosed private company will start up Maharashtra Airways with a fleet of three atres off to serve consiler but growing industrial centres.

Sicom's managers speak of

"emerging to compete with the all-india financial institutions", such as IDBL ICICI or SCICI, while also 'creating its own niche". But the ambitious spread of its activities raises coma eyebrows. Sicom's management is widely respected, but according to one Bombay banker: "There's a danger they've got too many fingers in too many ples - they may find there's a limit to how far they can leverage off their core activity, the lending."

There is also the strain between the rovernment's developmental priorities and com imperatives. "The government has to realise Sicom is no longer their personal fiefdom – there's an innate tension between viability and the emphasi mpanies setting up in 'designated growth areas'. which often means places no-one really wants to

Mark Nicholson

III Industrial policy: by Shiraz Sidhva A fast pace needed to keep up

The new government has ambitious plans to maintain the state's leading position

With Bombay, India's commercial and financial capital at its heart. Maharashtra continues jestously to guard its position as India's most industrialised state. The state, with its long history of entrepreneurial activity, accounts for over 28 per cent of the country's gross industrial produc-

With the best irrigation, power supply and communications network in the country, a large reservoir of skilled manpower and management personnel, and its proximity to ports and markets, Maharashtra has always been favoured hy foreign investors attracting foreign direct investment

■ The state runs the risk of being a victim of its own success

worth Rs22.51bn since July

But, as the state's top industrialists point out, Mahsrash-tra risks becoming a victim of its own success. "Maharsahtra is choking on its own success," dmits a BJP MP from the state. "Development is never without a price, and global companies are shying away from Bombay because property prices are totally unrealistic and the quality of life just doesn't match up."

"Maharashtra, like any other

market leader, is under siege, and needs to be wary of complacency," says Mr Anand Mahindra, deputy managing director of Mahindra and Mahindra, one of India's top industrial groups. "As business turns more global with the advent of multimedia, we need to benchmark globally to meet the demanding standards of multinational companies and attract new investors. We have to determine changing business needs and pinnoint what new investors are looking at, to take a completely fresh look at how we present our state to

Maharashira's new industrial policy, introduced by the Shiv Sena-Bharatiya Janata Party right-wing coalition in December 1995, eight mouths after it assumed power in the

cial problem of inadequate infrastructure by developing nine industrial townships in the state. "The hasic approach or mission statement of our policy is the empowerment of people at all levels," says Mr Liladhar Dake, industries min-

"We intend to do this by extending strong support to liberalisation, and providing infrastructure in developing regions in the state so that growth is not concentrated only in some areas, putting a strain on infrastructure. The private sector will be encouraged to participate in our developmental efforts, and the state will act as a facilitator, not a controller, with the simplification of procedures and

more transparency.
"We will create centres of excellence in specific growth areas in the nine locations earmarked for development," says Mr Yashwant Bhave, industries development commissioner. "There is a shift in these areas of development, so that industry can be dispersed throughout the state, instead of being concentrated in one or two regions and straining the infrastructure there."

Mr Dake says that the new state government is trying to "telescope the development of the past 33 years into the next corporations have acquired 33,000 hectares of land in 18 months, equal to the land acquired over the past three

nated near large towns, will soan areas ranging from 2.000 at Butibori near Nagpur and Mahad near Raigad will be expected to be developed by 1998, and the rest in five to

The townships will be financed by private sector and

18,72% 16.75% 20.06% 1960-81;

tion, and bonds and loans from financial institutions such as the Industrial Development Bank of India. Other locations include Sinnar (Nasik), Nandgaon Peth (Amrawati), Walimj-Shendre (Aurangabad), Kushnur (Nanded), Kagal Hatkanan-gale (Kolhapur), Nivil Phata (Ratnegiri), and Indapur near

The Shiv Sena-BJP government believes that as a result of the dispersal of industrial infrastructure, local employment will grow. The government plans to set up technical institutions to train potential employees in these areas.

It hopes to link small towns in every district in the state by giving incentives to private airlines. From August 15, an airline will connect Rainagiri, Jalgaon and Kolhapur districts. Private helicopter operators will be encouraged to venture into the state's vast hinterland, providing air links where none existed, and sesing congestion.

on the roads.

another important part of the state's industrial development. Power projects have been

power project at Dabhol, a 410MW project built by the Reliance group at Patalganga is expected to go onsiream by 1997. Special emphasis is being accorded to the development of infrastructure from tourism and the building of airports and jetties. State officials say that

accorded high priority. Apart from the controversial Enron

though the Shiv Sena-BJP government is keen to push. reforms through, many delays are caused because of inadequate liberalisation at the contre. "We want to do a lot, but if many things are beyond our control, with approvals and controls still with the central

government, which does act as an impediment. For instance, all foreign exchange approvals. are still needed from the centre and Indian currency is not fully convertible, impeding smooth foreign investment flows," says an official from the industries ministry.

"We are more consolidated. more focu to industrial development than the previous government, claims Mr Dake. "We don't say we will not allow foreign restment in this area or their we have no such hang-ups. We welcome investment in any sector as long as it is within the law of the land," he says. It remains to be seen how quickly Maharashtra's new

industrial policy will be imple-"Maharashtra is going to

have to run to remain where it

is in the race for foreign invest-

ment into India," concludes Mr

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Centre on a roll

Agro-processing companies would be welcomed since agriculture is a key activity

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Ford Motors' first Indian made Escort cars will roll out soon from a factory in Nasik, a City located 170 kms from Bombay in western Maharashtra.

Preparing for launch day, Ford executives are working closely with their counterparts at Mahindra & Mahindra, a local vehicle manufacturer which is Ford's Indian part, mer. Mahindra's 800 acre factory site, of which 90 acres have been earmarked for the Escort protect, is bozzing with activity. This finds its echo in downtown Nasik where shopping plazas have sprung up and billboards urge visitors to try the comforts of Nasik's

Net-sown Foodgrains

Cotton

Sugarcana

opened their doors for busi-

ness, of which one is a Quality

Inn franchise and another an

executive category hotel

owned by the Taj group. Occu-pancy is not a problem since

most rooms have been booked

by Mahindra for long-staying

resents an investment of

Rs2.5bm, is set to give a fur-

ther boost to Nasik's sconomy

and marks another milestone

in the city's evolution as an

industrial centre," says Mr

J.A. Kulkarni, Mahindra's

established the factory 15

years ago to assemble trucks,

they were among the first big

companies in Nasik. At the

time, Nasik attracted more pil-

grims than business visitors.

Situated on the western banks

of the River Godavari, Nasily is

considered a sacred place by

operations manager.
When the Mahindra group

"Our car project, which rep-

guests from Ford.

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the Hindus where, according to the scriptures, the Hindu god Ram lived in exile for twelve years. Pilgrims come to take a dip in the holy river or immerse the ashes of their dead, providing a livelihood for the local priests.

But businessmen who drive in from Bombay - a nerve-racking, four-hour journey on a narrow road jammed with trucks - go directly to the large industrial estates on the outskirts. These began to be developed in the late 1960s when the state government identified Nasik as a potential industrial district and offered incentives such as tax rebates to attract investment.

Cramped for space in Bombay, companies that wanted to expand had no option but to look elsewhere. For many, the first choice was Pune which has become the second largest industrial city after Bombay. With overcrowding and ris-

Nasik has emerged as an

attractive alternative. Its con-

ducive industrial climate and

peaceful labour history have

attracted many large compa-

nies whose suppliers gradually

Both cities are almost equi-

distant from Bombay. But

whereas Pune's roads are

clogged with traffic and its

infrastructure is straining to

cope with the influx, Nasik

retains the relaxed charm of a

small town where people can

still bicycle to work. "Business

is booming. Nasik is what

Pune used to be ten years

ago," says Mr J.R. Bunnargi-

kar, a businessman who has

According to Mr Humargi-

kar, who plays an active role

in the Nasik Industries and

Manufacturers' Association

(Nima) of which he was presi-

dent last year, there are over

8:000 small_scale units.

lived in both cities.

moved in as well.

Agriculture
Sown area in millons of hectures

18.0 13.9

.27

Since serly 1995, three have ing real estate prices in Pune,

consists mostly of engineering companies. Mr Dharkar says that they would like more agro-processing companies since agriculture is a sizeable activity in the region. Nasik is India's grape capital, accounting for 60 per cent of the country's total production. These are sold in local markets and exported. Nasik's farmers also grow onions and sugarcane and have recently discovered that the climate is suitable for strawberry cultivation.

employing more than 21,000

people. Many of these small

enterprises are vendors to

larger companies and Nima's 1,100 members include both

big and small companies.

"This well-established net-

work of suppliers is an added advantage for a company that

decides to locate here," says

Mr R.S. Dharker, Nime's hou-

orary secretary. He cites the

example of Samsonite which

has chosen Nasik as its manu-

facturing base because VIP

Industries, a local luggage

maker, has a large factory and vendor network there already.

Unilever which set up an ice

cream factory last year at Sin-

ner. Nasik's newest industrial

zone. Spread over 250 hect-

ares, Sinnar is being expanded

further by 700 hectares. These

newcomers are diversifying

Nasik's industrial base which

Another recent entrant is

Nasik's businessmen fear that rapid growth will pose problems if the existing infrastructure is not geared up. In the last decade, the city's population has doubled to over one million. Commuting between Nasik and Bombay is a nightmare by road and though there is a rail connec tion the trains are bregular. "A four-lane highway has been planned but no real work on it has begun. We must have a daily shuttle train to Bombay and also desperately need to be air linked to other cities, mys Mr Dharker.

Another problem companies face is recruiting skilled workers. Nasik has engineering colleges but lacks a technical training institute so companies have to train their workers on the shopfloor. Mr Dharkar says that Nima has asked the state government for help in setting up a specialised training institution.

■ Investment: by Mark Nicholson

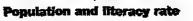
Other states catch up

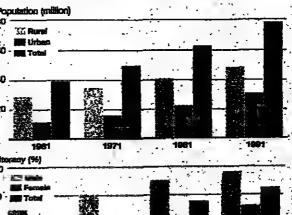
Figures suggest that Maharashtra may no longer be top destination for investors

Calculating whether Maharashtra is still India's top whether investment destination has become a compelling pastime for some. The state's government is determined to combat a view recently gaining currency that its pre-eminence is on the slide. The view gained publicity and credence with the decisions of Mahindra & Mahindra, the otherwise Maharashtra-hased vehicle maker, and Hyundai, the South Korean carmaker, to site big greenfield car plants in the southern state of Tamil Nadu. rather than near the auto hubs of Bombay or Pune. Then, as a bulletin from the

independent Maharashtra Economic Development Council put it, came the "shocking news" from the authoritative and also independent Centre for Monitoring the Indian Economy, that "Maharashtra has been uprooted from the number one position on the projected investments front and has tumbled to fourth place, behind its long-time rival, Gujarat and even Karnaenough to fall second to its traditional rival and industrialised northern neighbour Gujarat in the investment virility stakes, but Orissa? Poor, rural Orissa way out there in the

The CMIE figures for May





1996 showed that in terms of take had approved Rs1,114bn projected investment - that is worth of projects, Gujarat ment, with a total of 127 proapproved investment - Karns - Rs1,034bn, Orissa Rs1,010bn, posals, worth Rs22.5bn.

and Maharashtra just Rs1,005bn worth.

Figures for projects "under implementation" were slightly more favourable, showing Maharashtra second only to Gujarat, which had Rs618bn worth of projects under way (15 per cent of the national total) against Maharashtra's Rs498bn (12 per cent). The CMIE concluded that industrial investments in Maharashtra peaked in 1993 and have alowed since.

Maharashtra's government claimed otherwise Suggesting that the CMIE's conclusions, "like all data, should be read with a little care", it said its own and the central govern-ment's figures showed Mahar-ashtra had received the most Industrial Entrepreneur Memoranda" (declarations of investment intent) and actual Letters of Intent - 4,900 - of any state, Gujarat trailed, it said, with 4,032. The pace had not slowed, said the government, claiming Maharashtra led as a destination for foreign direct invest-

■ Dabhoi power plant: by Mark Nicholson

U-turn that saved the project

Generating capacity must be increased if demand is not to outstrip supply

When the \$2bn-plus Dabhol power project gets the final go-ahead from India's United Front government - expected as this went to press - it will

have become about the most politically approved project in Indian history. It will have been approved at state level by Maharashtra's former Congress party government and than by the present Bharatiya Janata party and Shiv Sena Hindu nationalist alliance. At national level, it will have received the nod from, successively, Congress, BJP

and now United Front governments:

together comprising virtually every party of significance in Indian politics. This is a little ironic, given that it was one famous act of disapproval which has led to more than a year of delays, reviews and re-reviews: that of the present BJP-Shiv Sana government, which criticised the project during its election campaign early last year as too costly, "corruptly" negotiated and environmentally unfriendly. It then "scrapped" the project on being elected. No work has proceeded at the site, more than 100km south of Bombay,

since last August.

"Dabhol" at that point became a expanded plant's output. The \$500m ational icon, on one side rallying ecocost of a LNG regasification plant was national icon, on one side rallying eco-nomic nationalists suspicious of the post-liberalisation arrival of foreign investment, on the other a warning signal to foreign investors that four years into liberalisation, there remained deep-seated political fears in India about the whole reform process.

When it was "scrapped", a third of the power plant construction had been completed on what was then the first of India's "fast track" power projects to have negotiated central government financial guarantees and closed its financing package. Under pressure from local industrialists and a realisation that Maharashira urgently needed the more than 2,000MW Dabhol would bring on streem, the BJP-Shiv Sena government made an adroit U-turn, offering to

renegotiate the project. This it did, with a panel of power experts commissioned by the state government and Dabhol agreeing to a reviewed formula which would cut the project's overall cost to \$2.5bn from \$2.8bm, the power tariff to Rs1.86 a unit of power from Rs2.40 and expand the net capacity to 2,184MW from an initially envisaged 2,015MW.

The cost cuts came mainly from a \$330m fall in generation equipment prices, part of a global trend over the period. The tariff cuts were made possible partly by spreading costs over the

also shifted from being originally a capttal cost to be covered under variable costs. Otherwise, Enron executives say, the project remains essentially as first agreed by the later deposed Congress government of Mr Shawad Pawar back in 1994-95.

Once approval is granted by New Delhi. Enron believes the first naphtha/ distillate-fuelled 740MW phase of the project could be commissioned within months. Commissioning of the full 2,184MW plant, which would then be fuelled by imported liquefied natural gas, is envisaged by 2000.

The financing for Dabhol, a project led by Enron Corporation, the US energy group, with Bechtel and GE of the US as equity partners, remains in place and the state government is confident only slight delays remain before work can restart. "Central government has cleared it." save Mr Dineeh Afzulpurker, the state's chief secretary. "It's only the procedure that's taking time a formality."

For Maharashtra, one of the few states to have reliable power for its industry, the project is the most advanced of several that are intended to boost power generating capacity from 11,800MW towards a goal of 21,000MW by 2001.

Last year power supplies rose to

match demand increases of more than 11 per cent, but keeping pace with the demand will depend on Dabhol coming on stream as scheduled, along with commissioning of further megaprojects. Next in line and awaiting clearance of their power purchase agreements are a 1,082MW project from Nippon Denro Ispat, the Indian steel and engineering group with GEC of the UK, and a 410MW plant to be developed by Reli-

ance, India's biggest corporation. The Maharashtra State Electricity Board foresees a total of Rs900bn in power investments to reach its capacity goal for the next five or more years. However, the Dabhol project may face

further hurdles. Since May 1, under the agreement with Enron, the state government has been bearing project suspension costs of more than \$200,000 a day. These arise partly from legal costs interest charges, cost escalations and the costs arising from the suspension of work to the hundreds of sub-contractors to the project - India's biggest single foreign investment project to date. Bechtel, which will build the plant, alone has more than 500 subcontractors. Negotiations on how this cost is to be subsumed have yet to be broached, and they may prove thorny. Mr Gopinath Munde, the power minister. suggested last month that the state government may have "means" to avoid having to make the payments.

THE GATEWAY OF INDIA MAHARASHTRI



Mumbai, the capital of Maharashtra is the largest state in India which accounts for two thirds of India's exports and seventy percent of its share transactions. The city which has always been recognised as the commercial and industrial capital of India, is buzzing these days with transnationals like Lever, Roche, Sandoz, Bayer, ASEA, Burroughs Wellcome, Colgate, P&G, Sulzar, Coca Cola, Du Pont, MICO, Kelloggs and many more making a beeline for it. The city is emerging as a hive of financial activity centre too with the likes of Merill Lynch, Jardine Fleming, J.P. Morgan & Orix. I am very happy that major multinationals are looking at Maharashtra as partner in growth and it is no wonder that US \$ 35 billion worth of investments are taking shape right now. Add

to this the fact that my government is determined to take Maharashtra faster and further along the road to becoming an industrial superpower. An indication of that resolve is the Government's New Industrial, Trade & Commerce Policy 1995. The Salient Features of the New Industrial, Trade & Commerce Policy : The Mission: Empowerment of the people at all levels. Conscious attempt is sought to realign the Government's role from that of a controller to facilitator in focussing on the common man's development. The Basic Approach: support to liberalisation

Thrust on infrastructure in developing regions Private sector participation in development efforts Simplification of procedure and transparency. - A recent Business Today-Gallap-MBA Survey

rates Maharashtra as its first or second choice on 18 of the 19 parameters , explaining why 64 per cent of respondents to BT-Gallup-MBA poll are planning to invest in the state. Importantly, the 13 parameters on which the state stands at the top are among the highest on Corporate India's priorities too. Thus, Maharashtra tops, inter alia, on physical infrastructure on the importance scale for quality of power. The combined impact has made Maharashtra the country's best state to invest in, with an index score of 119.94... twice the score of the second - placed state. Source: Business Today July 7-21, 1996.





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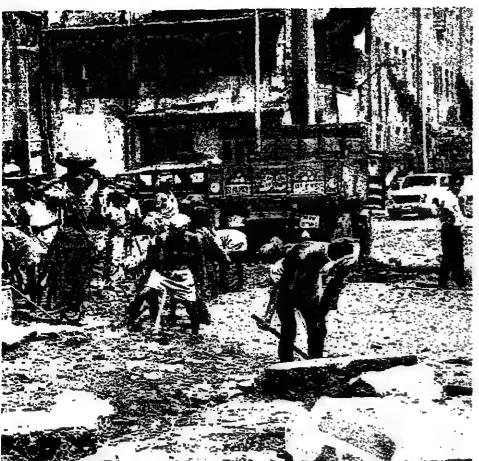
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believe will also contribute to the success of the projects.
Big industrial groups operating close to any of the privatis-

Some developers question will prove profitable to the groups likely to invest in them. Like the installation of captive

But even without privatisa-



Industry held back

The state government hopes to attract foreign investment to

improve its roads The two choked hours that it can take to drive from Santa Cruz airport in Bombay to the city's downtown business centre will impress on even passing visitors the need for more, wider, better roads in Mahar-

infrastructure is clogged in Bombay and, in the hinterland, the poor state of overstretched and Inadequate main routes is among the chief constraints on attempts to push industry further afield, towards the centres of Pune, Nasik, Aurangahod and, more distantly. Nagpur at the state's castern extreme.

Pune, for instance, is a centre of India's car industry, the home of both Bajaj Autos. India's biggest two- and threewheeler maker, and Telco, the truck and carmaker. But it is a three- or four-hour drive from Pune to Bombay's ports, 160km

The state government does not need reminding of such issues. A proposed eight-lane Pune-Bombay highway has been a "priority" project for the past eight years, but one dogged by political differences. legal problems in land acquisition and policy pitfalls; no government has so far managed to present a defined and legally clear ent development proposal for the road to meet contrac-

ters' requirements. Unsurprisingly, Mr Dinesh Alzulpurkar, Maharashtra's

three other proposed new highway links to the north, south and north-east, as top of a list of the government's "main thrusts" for attracting private sector financing. "The govern-ment has decided in a big way to attract foreign investment to

these projects," he says. Tender documents for the Bombay-Pune road, he says. will be issued later this summer with the aim of work starting by January 1997. Executives at Sicom, the recently-

> The government aims for work on the Bombay-Pune road to start in January 1997

privatised government industrial agency, estimate the cost will be around Rs16bn. The other routes - Bombay to Gos, Ahmedahad and Nasik - would be tendered from spring 1997. But construction contractors remain sceptical.

Developers cite a range of problems. First is the question of whether the government can successfully, and without delaying legal opposition. acquire the land for the highway. Mr Afzulpurkar says this is In train and will be completed in time for the tender. erhaps by August. There is then the question of what land rights will be offered

alone along the proposed roads are not likely to suffice to repay investment costs. They have been arguing for rights to develop land alongside the proposed highway as essential to making the project remunera-

says, will be addressed. If land cannot be offered alongside the highway, he says the government "is thinking" of offering bidders tracts of land to develop commercially elsewhere in the state. This would he handed over to the developers for the length of the lease for the road proper, which is to be tendered on a Build-Own-

Operate-Transfer basis. But as contractors point out, it is not clear that the government has yet itself acquired such commercial land to put on offer, nor is there any indication where in Maharashtra it

Moreover, the lease on the offered land, according to Mr as long as that for the BOT scheme - a period the government will not set and which will itself form a criterion for the award of the contract: the shorter the offered BOT period. the better, suggests Mr Alzul-

Contractors say they are not holding their breath, until all such matters are clarified. legally backed and in cold print. "Only a beginning has been made, we are still nowhere near knowing whether these projects are financeable," says the general manager of one Indian con-

struction group.

The Konkan Railway: by Shiraz Sidhva

Engineering marvel nears completion

A project dreamt of over 100 years ago has defeated

impossible terrain to become reality

Konkan Railway, stretching more than 760 kilometres along India's picturst coast is one of the most ambitious projects undertaken anywhere in the world. By December this year, this missing link in the world's largest railway system will be completed, connecting the e crasial sister of Maherashira. Goa and Karnataka. and bringing with it industry

For Indian Railways, with a network which currently spans 61,000 kilometres, the kan coast is the last fromtier, thought unconquerable until a few years ago because of the difficult terrain it covthrough mangrove swamps at the foothills of the Western Arabian sea, making the land a nightmare for engineers.

A survey exploring the possibility of a railway line along the 1,000-km Konkan coastline undertaken as far back as 1882, but it was not till 1991 that work began on what has been the largest railway proj-ect in the world in the last 50 years and the largest in South Asia this century. The project was essential if the Konkan region was to be industria-

The Konkan Railway project was designated a fast-track project, for which funds allo-

There has been tunnelling through hard rock and through alluvial soil that was too soft to hold

cated in India's annual rail budget would have been insufficient. As a result the scheme has been financed jointly by the central government, through the ministry of railways, and the state governments of Maharashtra, Goa, Rarestnica and Kerala.

Though the railway does not run through Kerala, it consects to the Central Railway line extending to Cochin and Trivandrum, and is expected to bring great advantages to the state. The Konkan Railway Corporation, a public sector

A marvel of civil engineer-

ing, it has involved constructing 179 large bridges and tunhard rock that had to be blasted, or through alluvial The terrain was as treacherous to build on as the journey will be breathtaking, with the railway line meandering through foothills and endless tunnels to emerge on bridges sp deep gorges.

"What we have achieved is nothing short of a miracle, says Mr E. Sreedharan, chair an and managing director of the Konkan Railway Corporation. "I challenge anyone who says it could have been done er in the circumstances. The rocky, densely forested and inaccessible land of the Konkan is so untouched by development that the local people were forced to migrate to Bombay or Pune to look for

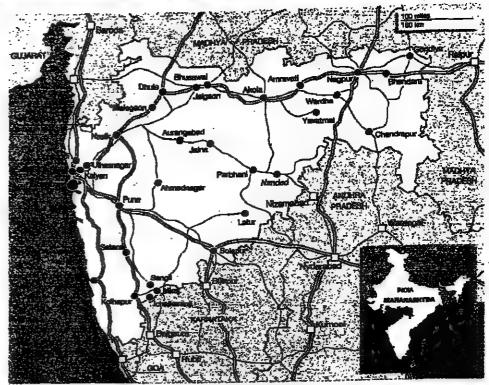
created thousands of jobs in the region, the prospect of a railway line has already attracted about 196 projects to the Konkan, with a total investment of over Bestushn.

The projects include power plants (Enron Power, Tata Power), iron and steel plants (Nippon Denro Ispat, Jindal fron and Steel, Kalyani Konkan Sponge), petroleum and petrochemical projects (Bharat Petroleum, Hindustan Petroleum, Hindustan Organics, and textile mills (Orkay Indus-tries, Ratna Silk Mills, Modern

The region is rich in mineral resources such as bauxite, iron and silica, which have been virtually untapped because of imadequate infrastructure. The fertile Konkun soil, the home of the Alphonso mango, is ideal for raising commercial crops such as cashew and areca nut and for supporting agro-based industry.

The railway will provide time, making the region.
sible to tourists for the first the Maharashtra and Mangalore opent offer ideal locations for beach resorts, and the Western Ghais, rich with for-ests, are ideal for trekking and climbing. A luxury train for tourists is being planned by the Indian Railways, to tra-

verse the route. The 41-hour train journey from Bombay to Mangalore, traversing a circuitous route to a 914-kilometre jour-



bay to Cochin will take 24 instead of 36 hours, and Bombay to Gos, only ten hours instead of 20. This is assuming that the trains travel at a speed of 100kph, though the lines are being built for a tential of 160 kph.

Railways has installed a sophisticated communications network, which computerises all operations including train control, scheduling and ticketing for the first time.

"It's the work of a lifetime sed into five years," have criticised the project, saying it will cause untole damage to the region. but think of the benefits. The development versus environ-ment debate will continue, but nobody can deny that the Konken Railway is a technical and

E Setting up in Bombay: by a special correspondent

A good office is so hard to find

With prices rising, landlords have a tendency to nibble away at the terms of a deal

Setting up an office in Bomba is not an exercise for the fainthearted. Except for those with enormous budgets, who are able to pay the highest office rents in the world, finding affordable and "mritable" office space in the island city taxes patience, time and then more

A dearth of adequate office space, landlords that range from the intransigent to the merely irrational, and inevitably drawn-out negotiations are just some of the hurdles a proctive tenant has to face

Professional real estate agents say that, if you are willing to pay premium rents, you can find a suitable office in four to six weeks. This is probably true. However, for those on modest budgets, it can take up to six months to find and fully set up an office. Rven then, "suitable" is a relative term in the Bombay property market where office accommo dation ranges from the barely

adequate to the horrific. While Bombay's office rents outrank Tokyo and New York, it has no world class buildings that are available for rent. The poor quality of the city's offices shocks many tenants used to the City of London or Manhattan.

Many companies simply do not even bother to look for office space, setting up base in the city's luxury hotels. The management consultants McKinsey, for example, have virtually taken over a floor of the five-star Oberoi hotel in the city for the past four years. However, for most compa-

nies this is not an option and the protracted saga of this correspondent's attempts to sucure office accommodation is by no means musual.

An indication of what to expect came with my first office - a deak in an existing pace already taken up by a sister company. The building was in the Fort area, once the main business district of the city before it was superse by Nariman Point in the 1990s. Like so many fine old buildings in the area, it had been spitted through a break-tro into a labyrinth of small tenancies. Without any collective mainte-

ing towards inevitable col-To get to the office in the morning meant climbing a

nance, the building was subsid-

dank, dark stairway stained

with betel nut juice. One had to step over families that slept and cooked on the stairs. inside, the office was tolera-ble enough, but the state of the communal areas was horrific. There were only two toilets,

without running water, for four storeys of office space and To get to the office meant climbing a dank, dark

stairway stained with betel nut iuice I soon realised that this

office was not a long-term option. However, it was by no means the worst of the alternatives at which I looked. These, of course, were limited by budget and location. Many companies are moving

out of the downtown area in south Bombay to the suburbs where rents are cheaper and larger spaces are available. A suburban location is also more convenient for local staff, saving much commuting time.

Continued on facing page

Ports privatisation: by Mark Nicholson

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A do-it-yourself solution

Companies can avoid frustrating delays at the big ports by developing their own facilities

Mr Pradeep Kapoor, managing director of Trafalgar House Construction India, gives a simple example to illustrate be believes the Maharashtra government's new policy of ports privatisation is likely to

In recent years, he says, the Indian Oil Company (IOC) had found that port congestion at Kandia, a major port in neighbouring Gujarat, was such that the company paid between Rs120m-Rs150m a year in demurage charges alone. the Gujarat

government's policy of ports privatisation. IOC then commissioned Trafalgar House to build a captive jetty near Kandia. "One year's demurrage charges was less than the total cost of that jetty," says Mr Kapoor. He says the IOC case common. A large Gujarat-based state fertiliser company also based near Kandla, and also paying demurrage charges of up to RS150m a year, saw the IOC

ioned its own. Tales of delay at the ports are legion across India, where four years of reforms have led to compound growth in trade volumes of 20-30 per cent over the past four years. Virtually all "major" ports are operating

jetty, and immediately

poorly - above capacity. There's a tremendous amount of excitement about ports projects," says Mr Rapoor, which he says is premised on exactly this concre tion. "Companies are saying, For the last 20 years my life

has been so miserable that if Arabian Sea coast from Alesomeone gives me the opportunity to build my own port, I'll grab it"."

Barlier this year the state government offered exactly such an opportunity, following the lead of its northern neigh bour and rival state Gujarat. In the expectation of receiving Rs650bn of fresh industrial investment along the its coast over the next few years, the state decided to offer seven of its 48 "minor" ports for privati-sation. "Minor" ports fall under the state's aegis, unlike "major" ports, such as Kandla. or Maharashtra's two main import-export terminals at Bombay and Jaraharlal Nehru

Port Trust, which are central government responsibilities. The seven ports span the 720km extent of Maharashira's

While Maharashtra privatises

the ports under its control,

centrally-run "major" ports in the state - Bombay Port

Trust and Jawahariai Nehru

Port Trust - are struggling to

cope with surging growth in

JNPT, the newer of the two,

has therefore tendered for

construction of 600m of new

puzy length and two berths

An investment of Rs60m is

envisaged, says Mr Jose Paul,

Build-Own-Operate basis.

INPT's acting chairman,

which he says should allow

for a trebling of present container volumes to 1m TEU

from the 339,136 handled last

offered on a 30-year

he Indian government is

following spit. The two

the scheme, down as far as Radi. 2106cm south of the state capital, close to Maharashtra's The state has already completed, or is completing, technical and feasibility studies for

wadi, north of Bombay, and

the first to be tendered under

establishing all-weather ports in the seven locations, with drafts of between 6m-13m for vessels up to 30,000 dead weight tonnes. Bids will be sought in success sion for the seven ports, which will be offered for development on a Build-Operate-Own-Trans-

fer basis with a 30-year tenure, extendable for a further maximum of 20 years. Port developers will be required to install both cargo handling and pas-senger transport facilities, with

Container volumes to treble

year. "Bombay is saturated.

"Container traffic will have

to gravitate towards the new

1989, may be the newer port,

but sited on the southern lip

of New Bombay it has more

historic neighbour, Bombay

Port Trust, which sits on the

Bombay. Both are presently siretched. Bombey lost year

toones of cargo and 517,000

TEU, up from 484,000 TEU a

year earlier - running at 124

designed capacity. Volumes

37 per cent last year, after

at JNPT, meanwhile, were up

handled a record 34,03m

per cent of the port's

tip of congested South

room to expand then its more

port."
JNPT, commissioned in

it will have to shed its

excess," says Mr Paul

the state government committing itself to providing back-up infrastructure of roads, rail, nower and other services To date, only Ratnagiri port of the seven has any industrial

infrastructure - a small clinker The rest are essentially fish-

ing harbours, raising some such ports and attendant new industry might prove in other-wise rural coastal districts. Yet, although the Dabhol Power project, itself sited on the coast and near one of the seven offered ports, attracted some opposition from locals, state officials believe the developments will be welcomed as job-bringers rather than subjected to protests by locals. "Our experience is that people

growth of 47 per cent the

Mr Paul says 80 companies

or consortia have expressed

plan, of which he says seven

interest in the expansion

or eight appear strong

contenders. The tender

stipulates that bidding

parties have experience of

500,000 TEUs annually and it

Interest has been expressed

by the UK's Felixstowe Port

Australia and several other

groups. "We should be able to

complete all the formalities

and award the contract by

December," says Mr Paul.

Authority, the Singapore Port

running ports handling

includes productivity

Authority, P&O Ports

international shipping

requirements.

dated industry," says one

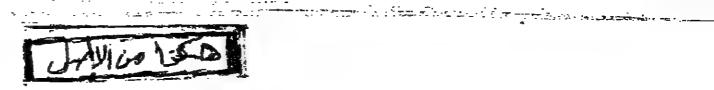
Sicom enecutive in every case, the aim would be for ports to be developed appropriately to the specific industries either already in place or planned for the area a factor which contractors

ing ports, they suggest, might feel obliged to mount or join bids to complete the port, to ensure it fits their own requirements. "Industrialists are going to say, there's no way I can afford anyone else to build that port," says Mr Kapoor.

whether, in the longer, term, running these smaller ports power plants, they argue, the developments help to clear an immediate and pressing infra-structural bottleneck, but risk ultimately adding to costs and creating new and uncharted

management areas. For the moment, though, both Indian and foreign groups have already approached Sicom with proposals for the first port on the block at Alewadi, a 9m-11m draught port 65km north of Bombay. So far Alewadi boasts only a small lighthouse, a couple of storm and warning signals and a customs official

tion, such smaller ports have seen their trade volumes increase markedly. The combined 48 minor ports handled 2.6m tonnes of cargo in 1994-95, up more than threefold on the 729m of a year earlier. Within a decade, the state government suggests optimistically, these little fishing ports will collectively be handling 50m tonnes



A descent of 30% from the peak

Six months ago, office rents were the highest in the world. But demand has fallen sharply

The laws of gravity are finally starting to be felt in Bombay's over-inflated property market. Purchase prices on average have fallen by 30 per cent over the past year although there are signs that the slide in values may now be slowing. A correction has long been

overdue in this deeply distorted market where even shacks in the slums could fetch £5.000. While the Indian economy

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started a process of liberalisation in 1991, the property mar-ket has remained subject to an overhang of socialist policies

'Bombay office rents had become the most costly in the world'

which tightened up the supply of land, artificially sending

The extent of the property boom came to world attention with headlines that Bombay office rents had overtaken Hong Kong, Tokyo and London

as the most costly in the world. A December 1995 Richard Ellis survey put total occupation costs for office space in Bombay at \$1,799 a sq m a year compared with \$1,408 for downtown Tokyo and \$1,340 for

market over the past 12months. The liquidity crunch in the Indian economy over the past year has seen investors, corporates and public sector companies either sell off property to raise cash or scale back

Political uncertainty surrounding the national elections has also deterred investors and companies, with many waiting ssess the stability and policies of the new United Frant government before making fresh commitments. In addition, fluctuations in the rupee exchange rate have seen some overseas Indian investors take a more cautious approach to the market.

Speculative demand for property in Bombay has also fallen dramatically. At its peak, Bombay accounted for about 30 per cent of all demand for property

However, Bombay's unrealistically high prices have seen the "hot money" shift towards ther cities in India such as Madras, Pune, Bangalore and Delhi. There are also signs that

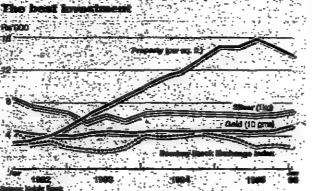
multinationals are being deterred by Bombay property prices. Companies such as Coca-Cola, Lehman Brothers and Ford are setting up head-quarters in New Delhi, attracted by lower overheads and closer access to the corridors of political power. "We are worried about the

direction of property prices in Bombay over the next 12 months," one leading real estate agent admits.

"People are used to seeing Bombay property prices go in one direction - upwards. They

obscured the downtrend in the property is still strong but prices are so unrealistically high at the moment that nobody can afford them."

Purchase prices in Nariman Point, Bombay's pre-eminent business district, have fallen from an average of Rs30,000 (£600) a sq ft to around Rs21,000 over the past 12 months. At the market's peak, some office space in Nariman Point was commanding Rs40,000 a sq ft. This compares with average prices of Rs5,800



fallen, although the slide has been meven, hitting the top and bottom ends of the market hardest. The most talked-about building in Bombay, the new NCPA spartment complex, has been a prominent casualty.

The Tata group-developed complex, which overlooks the expanse of Bombay's seashore, most upmarket buildings, although its apertments appear well below international standards of luxury accommoda-

than other business areas. Mr Pranay Vakil, Knight Frank India managing director, says rentals in Nariman Point could

3,450 sq ft apartment in the

building would set you back

\$3m to \$4m. Now such are

apartments are being offered

Office rents have yet to

reflect fully the fall in pur-

chase prices but have softened.

Nariman Point office space has

fallen from a quoted rent a

year ago of Rs200 to Rs250 a sq

ft per month to about Rs175 to

Rents in other areas have

shown similar falls. However,

over the next few years Nari-

man Point rents may fall faster

Rs200 a so ft.

for a mere \$2.5m to \$3m.

bay's industrial development. It has been a key factor in the over that period as an increasland for redevelopment. ing number of companies moves out to the suburbs or other cities.

"The corporate boardrooms and representative offices will

fall to around Rs100 a so ft over the next two years. He says at least 250,000 to 300,000 sq ft of office space in Nariman could become vecunit

the mills was industrial estates and residential buildings. However, some companies have set up office in the industrial

> Mr Nasser Munjee, Housing Development Finance Corporation executive director, cautions that property prices may actually firm in the current year if the economy picks up. He says that, as the supply of land is still so limited, any pick-up in demand is likely to see prices rise again.

operations to be located there

given the current high costs."

Mr Vakil says much of the

back office operations of the financial sector will move to a

new development area on the

fringe of central Bombay called

When fully developed, the

complex will be nearly seven

times the size of Nariman

Point. Bandra-Kurla has the

scope to contain about 210

office buildings compared to

For companies, the attrac-

tions of Bandra-Korla are

clear, with purchase prices at least 25 per cent less than Nari-man Point. The new complex

spaces and the commuting

time for staff is considerably

reduced - no small factor con-

sidering Bombay's congested

traffic and overloaded public

In addition, there are other

factors which are likely to

increase the supply of land for

development which in turn

will put pressure on property

Some of the ageing textile

milis which take up about a third of downtown Bombay are

at last starting to be redevel

Political pressure from

unions has long presented a

stumbling-block for the rede-

were once the base of Bom-

tightening of supply of new

initially, the development on

elopment of the mills which

the 34 at Nariman Point.

the Bandra-Kuria complex.

he says.

weight of legislative anomalies holding back supply and development of both residential and

There still remains the dead-

Bombay must be the only

ants. Even if you have a driver

numercial space in the majorliving in your garage for 20 ity of its inner-city area. Under a policy of pursuing the decongestion of the city, state government regulations banned new commercial and office space south of the Mahim Creek, a river that marks the border between slow-moving court system could still take 10 to 15 years. south Bombay and the sub-The rent acts have survived

because of enormous political However, Mr Nasser says the pressure on the state governregulations have proved counter-productive and it is time to lift them.

There are other regulatory lations prohibiting the building of new residential developments within 500 metres of the

it is illegal to build even a

square inch of new office or

They were initially introduced in the late 1970s to protect the coastline in such

The restraint is the city's various state rent control

states as Kerala and Goa but have since been applied to metropolitan areas as well.

However, the most notorious and significant restraint on development in the city is Bombay's various state rent

entirol acus. Introduced in the 1940s, they make it extremely difficult for a landlord to evict a tenant who is determined to stay in his accommodation or even

raise rents to reflect inflation or market values. The result has created some unique anomalies. Some tenants who took up lesses in the 1940s to 1960s pay peppercorn sums as low as £10 a month for bomes in the best parts of

town while their immediate

neighbours pay some of tha

highest rents in the world. Landlords with low-rent tenants have virtually no incentive to maintain their property. All around Bombay are buildings crumbling into disrepetr and each monsoon season brings a toli of collapsed edi-

One local real estate agent

says there are thousands of apartments locked up empty around Bombay simply because landlords are afraid they will not be able to reclaim their property from their ten-

years, it is virtually impossible to evict him from it," he says. The real estate agent says that even if someone illegally seizes part of a landlord's property, eviction through India's

ment to maintain them. However, Mr Nasser is hope ful that a solution to unwinding the rent acts may be found over the next few years. He says they may be lifted on new tenancies in the near to medium future and gradually phased out for existing tenancies after giving first a five-

year notice period of the The local real estate agent is sceptical though, saving there are too many vested interests

to see a lifting of the rent act, "Many politicians have made a lot of money out of rising prop-erty prices," he says. However, there are also signs

that at least one legislative restraint on development may be eased. The Urban Land Ceiling Act, which limits ownership of sites in all metropolitan areas to a maximum of 500 so metres, appears set to be over-

The act was brought into effect in 1976 by then prime minister Indira Gandhi with the socialist aims of preventing concentration of urban property in a few hands, deterring property speculation, discouraging the construction of luxury houses and ensuring an equitable distribution of scarce building materials.

The act restricted the capacity of developers to consolidate land blocks although some residential development could proceed if a set portion of it was handed back to the gov-

Mr H.D. Deve Gowds, the new Indian prime minister, is said to be a long-time opponent of the act. However, real estate agents caution that the impact of any overhaul may be more psychological given that some development could go shead

There also are other anoma-

lies holding back property development. By international standards.

the maximum allowable floor space that can be constructed compared to plot size - the floor space index (FSI) - is very low, restricting the scope for major projects. Bombay Municipal Corporation has moved to allow developers to increase the FSI on developments by introducing transferable devel opment rights.

If the developer undertakes such projects as slum redevelcoment or a school, they gain development rights which can be transferred to increase the size of other developments. However, the TDRs only apply to residential projects and only in some areas of the suburbs.

Perhaps the perplexing Bombayites sitting on the vast wealth of their real estate do not simply sell up and enjoy the good life in a less polluted. less frenetic city.

One real estate agent cites the case of a schoolteacher

Why more property owners do not follow suit remains a mystery

month and whose family had for the past 50 years owned a two-bedroom flat in Neapean Sea Road, which has become one of the fashionable areas o

The schoolteacher sold the flat for \$2m, moved to the greener and more laid-back Pone, in the south of Maharashtra, and bought a substan-

tial bungalow. He still had enough money to set himself up as principal of a school and thus live in wealth for the rest of his life. Why more property owners

do not follow suit is a mystery. When I first stayed in Bombay, it was with a retired senior police officer who had a three-bedroom flat in the south of city. By western standards, the flat was modest. However, it was conservatively valued at

Asked why he did not sell un and enjoy his retirement elsewhere, the officer replied: "You get used to the lifestyle here. It would be hard to live anywhere else."

A good office is so hard to find

Continued from Page IV However, the suburbs can be impracticable because of traffic congestion. At peak times, it can take more than an hour to reach Nariman Point even from the nearest suburbs, initially, Nariman Point was ruled out because of hudget reasons. Although its 15-year buildings still fall well short of international standards, for prestige in India there is no

location to beat it. With office space costing at least Rs200 a sq ft, the 500 sq ft office we needed would cost about Rs100,000 a month. In addition, there would an upfront payment of at least one year's rent, a deposit of equivalent to six months' and two months' rent as commission for the real estate agents.

So the search went on through secondary locations around the city. Over four months, we must have seen 80 offices. Some of them almost defied belief. They included a high coffin shaped room, somebody's cluttered front bedroom and one office that was fine except that it reeked of urine from the toilet next door. All these "offices" were priced at between £1,000 and £1,200 a

month. Other offices were rejected as too small. Although most offices we looked at were notionally 500 sq ft, in reality they varied remarkably. This is because of a flexible definition of rentable space in Bombay. In most buildings under 15 years, tenants pay for the carpet area - the actual floor

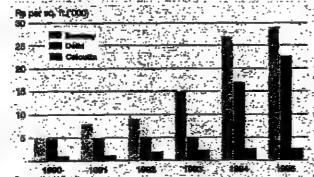
cent more, with landlords taking into account such factors

space - plus a percentage of communal areas such as lifts. halls and walkways. This percentage can vary widely. The total "built up" area is usually about 20 per cent more than the carpet area but in new buildings it can be up to 50 per

the real occupation cost far 24-hour access, while one beyond the quoted rent. The loss of interest and foreign exchange risk on deposit money sione can make a big difference to occupation costs.

Almost invariably, the negotiations over such factors are protracted. One local real estate agent says landlords have a tendency to nibble

Office property rental market



This makes it difficult to assess relative value of different offices - a process already complicated by a plethora of variables. These include the amount of deposit and upfront rent, the extent of furnishings. the scope to install technology such as satellites and computers, the length of the lease, the requirement or not for a bank guarantee for the lease terms and whether the tenant pays

such outgoings as electricity and rates. Even the number of telephone lines can be significant and all these factors can push

adding such things as rates and electricity to the basic rent. "If they make enough of those nibbles, the whole terms

> changed," he says. Time and time again, we came close to closing a deal only for it to fall through at the last minute over negotiations on the extras. Many landlords would agree to a deal and then suddenly make an unrealistic demand such as for a deposit equivalent to three years' rent. Other landlords agreed to a deal but refused

of the deal can be totally

inspited on enorbitant rates for providing basic services such as telephone lines. Rental negotiations are not helped either by a wariness of landlords to rent out property. Even so, many landlords pre-

fer to lock up office space rather than take the risk of renting it out. Often landlords will require detailed financial information about a tenant and/or bank guarantees that they will leave a property at the end of the lim

Eventually, after acouring secondary locations for four months, we turned back to

We chose an 500 sq ft office in Nariman Point with a carne area of about 450 au ft. The average rent on the two-year lease works out to Rs80,000 (£1,600) a month. We also paid six months' rent as deposit, 12 months' rent in advance and two months' rent as commission to the real estate agents. However, even then the saga

lengthy refurbishment of the office after the rental agreement had been signed, the swathe of the office and claimed it. Part of this had been agreed, but the landlord went far

beyond the original agreement It took much negotiation to reclaim the space. And even then, the landlord ended up

Nevertheless, I am told we got a reasonable deal on the office. Nothing seems clear-cut in Bombay property deals.



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A refreshing experience

The investment was made after the rules were relaxed in the liberalisation measures of 1991

Foreign companies that are skittish about Maharashtra can take heart from Pepsico's refreshing experience. Donning a blue-and-white Pepsi cap, Mr Manohar Joshi, the state's chief minister, recently inaugu-rated the soft drink giant's new canning and bottling lines at Roba, an industrial district located 100 miles from Bombay. Deliberately projecting a new, welcoming image and looking enthused as he took a sip from a chilled can. Mr Joshi promised all help to

Mr Joshi has good reason to be pleased. In the last five years, Pepsico India Holdings, the indian subsidiary, has invested Rs2bn in two company-owned factories in Maharashtra which provide employment to 4,000 people.

This investment, the largest in any single state by Pepsi, represents one-fifth of the company's total investments of Rs10bn in the country. In addition to its own bottling facilities, it also has a franchise arrangement with a small local bottler. Mr P.M. Sinha, Pepsico India's chairman says that both the state government and the bureaucracy have been strongly supportive. "This is a

Continued from Page I Equally, there has been a

general welcome for the gov-

ernment's stated objectives of

opening up virtually all realms

of infrastructure to private and

foreign investment. Before the

end of this year, the govern-

ment hopes to have won com-

petitive private tenders to

build the long-delayed Bom-

bay-Pune expressway, while

also putting up for bid the first

of seven smaller ports for piri-

There is also some scapti-

cism that these projects will

excite the sort of interest the

government desires, notably in

the roads sector. Basically,

place where you can hire high quality technical people. The work culture here is very good and we have no problems pushing out our delivery trucks at 6am every day," he

The new lines at Roha were set up in a record nine months since work began last September. Furthermore, most of the 475 workers employed by Pepsi at Roha have been recruited locally. The company also derives most of its raw materials and packaging worth Rs350m annually from local suppliers in the state.

By the turn of the century, Pepsi wants to invest an additional Rs3hn in Maharashtra. About half of this will be spent on setting up more bottling capacity to cater to thirsty markets like Bombay where demand for fizzy drinks is increasing at a pace that Pepsi cannot keep up with. Mr Sinha

Position under challenge

however, there is a nagging

feeling among contractors,

bankers and others in business

in the state that the govern-

ment regards private sector

invesiment in infrastructure us

None disputes that the gov-

ernment has identified the cor-

rect priority for developing the

state. Officials in the Mahar-

ashtra government say they

increasingly take the view that

better infrastructure is the sin-

gle biggest inducement for

investors, and that the state's

emphasis should shift in this

direction and away from the

use of tax and other financial

something of a panacea.

says: "Our business has grown factor here than elsewhere and we've had 60 per cent growth year on year. But we continue to chase demand."

Pensi's second factory is located at Chembur, a north Bombay suburb, which caters to the city market. Cans from the Roba factory are distributed in Bombay and Delhi, whereas bottles go to up country markets in the state; if sent to Bombay, they would attract an entry tax that would eat into margins.

The company wants to build third bottling unit for which it is negotiating to buy a 15acre site also in Chembur. This new huge factory, with a proposed capacity of 3 000 bottles per minute, will double Pepsi's total annual capacity of 22m cases in Maharashtra and, more importantly, enable it to

The danger, many believe, is

that the government might be

seduced into believing that the

private sector alone can shoul-

der the burden of infrastruc

ture development. "I think

they are running away from

their responsibility," says Mr

Pradeep Kapoor, managing

director of Trafalgar House

Construction India. "In semi-ig-

norance the government has

been thinking that from now

onwards the infrastructure can

be created by the private sec-

tor, in my view, the infrastruc-

ture we can provide will be

minimal - nerhans 5 or 10 per

cent of the total investment

fully-owned subsidiary of Pepsico. Reluctant to invest more in the venture, Voltas agreed to sell both its equity stake as well as its bottling operations in Maharashtra and Gujarat for which it had the Mr Sinha recalls that when they took over the Roha factory in early 1994 it was operat-

aghtra is recent and was made

after the economic liberalism

tion of 1991 when the rules for

foreign investment were

relaxed. When Peosi entered the country in 1990 under a

stricter regime, it was begget

down by export commitments

and restrictions on ownership.

Pepsi started off in India as a

three-way joint venture with

Voltas, a Tata company and

the Punjab Agro investment

Corporation, a state-owned

Pepsi's initial investments

were in the northern state of

Puniah where it established

three factories - for soft

drinks' concentrate, tomato

Taking advantage of the new

rules, Mr Sinhs bought out the

joint venture partners, convert-

ing the Indian comment to a

paste and mack foods

company.

Consequently,

ing at half its capacity, the nists awohaur a ai eres asherd and distribution was poor. Pensi's market share at the time was 18 per cent and it was poor second to Parle, a pri-

vately-owned, local soft drinks manufacturer. Failing in his bid to acquire Parle, which sold its brands to Coca-Cola, Mr Sinha bought Dukes, another local manufacturer. thereby acquiring the bottling Pepsi has since invested fur-

ther in upgrading and modernising its bottling acquisitions. This has paid off, claims Mr Sinha, as Pepsi now has a 56 per cent market share in Bomhav and overall market leadership in Maharashtra.

Building additional capacity will enable Pepsi to consolidate further its position as well as launch new products. The new factory will include a juice line with a capacity of 200 hottles. per minute. Mr Sinha says that, by next summer, Pepsi will be introducing fruit juices such as mango, grape and strawberry for which it has begun to negotiate with local fruit pulp suppliers.

Film industry: by Shiraz Sidhva in Bombay

target for Hollywood CONGRAND STAC-STUDEN FREMIERE.

India has the world's keenest moviegoers, so the Americans want more of the action

Bombay, or Bollywood as it is known, is a regular dream machine, churning out nearly half of the 750 films made in India every year, Films made in Madras and Hyderabad in the southern Indian languages account for a larger segment of the industry, but Bombay prodness the movies with the big hudgets, the big stars, raking in the big bucks. Bollywood, which employs

over 500.000 people full-time, is the home of the formula film. They are made in Hindl, the national language, and are replete with song and dance routines, fist fights and family histrionics, heroes and heroines, vamps and villains. "People's lives are so bleak in our untry, that they need a little dose of escantam, and what hetter than a Rs20 ticket to Nirra?" says Me Daksha Shetty, a Bombay University profess who has studied the Hindi film and its impact on society.

There is no doubt that Hindi films deliver large doses of escapism, glamour and comph for the price of peanuts. des boasting the biggest film industry in the world, India also has the largest movie audiences, with about 5bn paying customers a year. nearly four times the number of moviewers in the US.

After a smart recovery from the relatively tardy onslaught of video and satellite television the country five years ago, the Indian film industry is facing a fresh assault - from Hol-

While Hollywood has a steellike grip on audiences in Europe, Latin America and even the Far East, where few films are produced, Indians have always watched Indian There is a small but dedicated audience for western movies, but the numbers account for nothing compared with the millions that flock to Indian language cinemas each week. The market is defined not by language alone, but by strong cultural affiliations.

The sheer numbers were boosted by a large export mar-



MAN'S ROBINSON

ket that caters to expatriate Indian, Bangladeshi and Pakistani communities (the Hindi cinema transcends political and diplomatic tensions) in the Middle East, Europe, US and

the Far Rast

in 1994, following the reversal of a 20-year ban on the widespread distribution of foreien films in India. Hollywood hit Hindi-film turf with a dubbed version of Jurussic Park. There was no sex, no vioience, no action of the kind that distinguishes Hindi cinons (the hero always knocks dead 50 thugs in five minutes to rescue the damsel in distreas), and yet, the Spielberg blockbuster was a resounding

year, muscleman Arnold Schwarzenegger, the gun-toting star of True Lies was spouting Hindi like a native. In a desperate attempt to cash in on the world's largest movie market, Hollywood has dubbed films like Babu's Day Out, Schindler's List, Speed, Aladdin and The Mask, with adequate success to keep the market flooded with

dubbed films. Jurassic Park in Hindi ran for 25 weeks and grossed \$8m but Walt Disney's animated yarn Speed had to be withdrawn in less than a month. In the big cities, where larger audiences frequent English films, the original versions

Mr Uday Kaushish, north India distributor for Paramount, MGM and Universal Films, says that Hollywood films could carve out 10 per cent of the market in the next

But Mr Kamal Nabta editor of a Bombay film trade journal disagrees. "We must realise that however good a western film may be, it cannot answer the cuitural needs of Indiana as easily as our films can. I am convinced that Jurassic Park did well only because of its novelty value because it was the first English film people saw dubbed into Hindi," he says. "I don't see any of these dubbed films grossing the \$100m that Hum Aapke Hain Konn (Who am I to you?), the biggast Hindi blockbuster in 20 years, has so far."

Mr Nahte points out that while films made in Bollywood may make foreign audiences shriek with derision, at home they are grossing more than

While the cost of production for even the most technically advanced films rarely crosses Rasom, box office takings for the best films have exceeded Rs1.5bn within a three-year period," he says. "And a good Hindi film never gets dated. Audiences return to see the same films over and over

again. Add to that the sheer size of the movie-going public and the numbers are stagger-

The success on a Bombay

film rests almost completely on

the shoulders of the stars that

are signed up. Which is why the top names in the business such as Mr Anil Kapo cannot possibly be matched by Hollywood actors and actresses. however great," claims Mr Nahta Music is another great draw - song sequences are filmed and released even before the entire film is ready. Bombay's directors are not afraid of the Hollywood invasion, saying that Indian audiences want Indian cinema. Already, US investors have made overtures in India to fund movie theatres and multiplexes. "Bombay has nearly 700 cinema halls but they are no good without the proper projec-

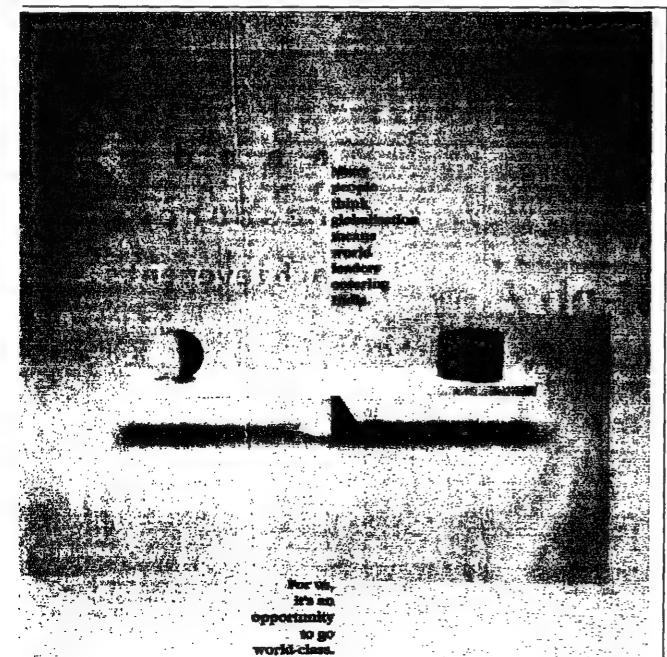
tion, without Dolby systems, and the Americans will have to invest in these areas if they want their films to compete with ours," says Mr Nahta. "I cannot see Hollywood films achieving a real grip on our market, at least for sometime," says Mr Shyam Benegal, one of India's best directors of the new cinema. "Americans know little or nothing about

our culture, or what appeals to

Indians. We have a lot to learn

from them, but they have to

learn from us too."



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of spheres. Exports to competitive, quality conscious global markets will soon leave behind the current US \$ 25

million record Collaborations with KT1/Technip for Cracker technology; Himoni-

Techinont for Polyethylene and Elhoxylation plant will turn our petrochemical complex into a state-of-the- that direction an facility.

Our concerns however, extend way heyand technology. To encompuss health, the environment and ealety. In fact our safety record has won us the British Safety Council's prestigious 'Sword of Honour' award

Polypropylene. And with Blus for our to take on the world, sidestepoins





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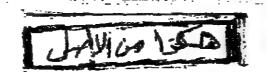
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KAZAKHSTAN

Glow of prosperity amid the ashes

After the ravages of Soviet rule, the state now has the hope of stability. **Anthony Robinson** and Sander

Thoenes on its past, present and future

The re-election of Mr. Boris Yeltsin as president of Russia last week was greeted by a sigh of relief in Kazakhstan and other former colonies of the Soviet empire. The news was seen as further proof of the vitality of the democratic process in Rus-sla. Above all, it signified that Moscow would not try to recreate the old Moscow-centric Union, as threatened by the communists. Instead, the new government, it is hoped, will

Head of state.

Real GDP growth (%)

inclustrial output (%)

Ex. rate to US\$ (0.0.p)

Current account (% GDP)

Official reserves (US\$6n)

Fleoal belance (% GDF)

Netherlands

Chirin

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F 7 TAR T

Germany

Gross external debt (% GDP)

Main tracking partners (% 1995)

Other members of former Soviet Union

reforms that have already laid radioactive desert. the basis for a new, mutually profitable relationship with Kazakhstan and other former Soviet abitus. During 70 years of Soviet

rule Moscow treated Kazakh-stan in much the same way as 18th century England treated Australia – as a penal colony, dumping ground and quarry. Stalin banished Leon Trotsky to internal exile here in the 1920s. The railways and mines were built mainly by prisoners sent to gulage hastily set up in the treeless steppe and barren deserts of this enormous country half the size of the US.

The pace of industrialisation i up when Stalin fransferred factories from Nazithreatened western Rossia and Ukraine during the war. At the start of the Cold War he closed off huge areas of eastern Kazakhstan around Seminalatinsk and turned it into a mudear

1995: 16.7at; 1996F; 16.5m

16.5 18.5 18.0

3.0

70.0

29 27

President Nursultan Nezarbayay

-8.9 -7.9

180.0

80.0

1.7.

-4.0

-6.5

10.5

271750 km

Under Nikita Khrushchev, the Soviet Union built its main space centre, the equivalent of America's Cape Canaveral at Balkonur, near the inland Aral Sea. The latter has been turned into a poisonous cesspool by damming up the rivers that supplied it with fresh water and by pollution from the agrochemicals used in monoculture

Khrushchev also put the virgin lands" of northern Kazakhstan under the plough and used the central part of the country for strategic nuclear

After intensive diplomatic egotiations with Washington, Mr Nursultan Nazarbayev, the former communist party first secretary who has transformed himself into Kazakhatan's powerful executive president, agreed to dismantle the bases. He has turned Kazakhstan into a non-nuclear state, thereby easing both Washington and After all the activity that

was dictated by Moscow and submitted to passively for decades by the formerly nomadic, Turkic speaking Kazakha, ethnic Russians and a rich mix of other nationalities, Kazakhstan emerged from the wreckage of the Soviet Empire as a poor, economically lop-sided and ecologically ravaged country.

On the plus side, however, the new "independent" Kazakhstan began life with a good basic energy and transport infrastructure, a literate, educated population, and a vast storehouse of as yet unexpicited natural resources.

Even so the country emerged blinking into the light of an "independence" that remained heavily conditioned by economic reliance on Russia. At the beginning. Moscow did not even want to include Kazakhstan in the Slav-only version of the Commonwealth of Independent States (CIS) created at land emerged from 70 years of



An iron and steel works in Keracanda: foreign ownership is turning industries round

in December 1991. It was only admitted after strong protests from the president, terrified at being denied links with the country that took 90 per cent of Kazakhstan's output and supplied most of its oil and other needs. Broadening Kazakhstan's relationships with other countries has been a top priority since that traumatic

Seen against this background, the very survival of this totally land-locked central Asian country, situated at the heart of the great Eurasian landmass, has to be judged something of a miracle.

But survive it has although the first five years of an initially unsought and unexpected "independence" brought much suffering. Millions of disorientated people lost their jobs, their income and their security. Their entire way of life as "Soviet man" was changed for ever, without anything recognisable to put in

Potentially, one of the richest countries in the world, endowed by nature with worldclass deposits of oil, gas, coal, ferrous and non-ferrous metals and thousands of square miles of fertile grain and pasture of aconomic meltdown. Its gross domestic product last year had sunk to a mere \$16bn-18bn - roughly \$1,000 per cap-

But the worst of the bad

down to single digits before the

end of the decade and to

in foreign policy, President Nazarbayev has played an

active and canny role. He is

Kazakhstan is placed by its

Russia and China. They are

both large and fast-growing

Most important of all, years

with Moscow paid off three

and Oman. This opened the

way for a new 750km-long oil-

pipeline. By the turn of the

century, the new \$1.5bn pipe-

line to be built by the Caspian

Pipeline Consortium (CPC).

tegic constraints under

strengthen the national cur-

rency, the tenge.

size and location.

wider world.

on the Bosphorus.

times is definitely over. A prosperous, secure future beckons. The turning point, in retrospect, was reached in the second half of 1994 When a new government headed by the prime minister, Mr Akhezhan Kazhegeldin, started to implement an IMF-monitored stabilisation plan that succeeded in killing hyper-inflation.

After a wobble last year, when the government undermined the confidence of foreign investors by interferring with an international tender for the sale of the giant Vagilkovakove gold mine, the goverrment has gone out of its way to attract and reassure oreign investors.

Bureaucracy, especially at the lower levels, remains a ambiem. But the government. with international help, has laid the foundations for a modern tax code, revised many laws to bring them into line with the needs of a market economy and encouraged bank reform and privatication (see stories, page 4).

Minsk, the capital of Belarus, Soviet rule to endure five years is pledged to bring inflation from the Karachaganak gas in to give this process momentury Central Asia.

oil fields through southern Russia to the port of Novoros-

field and oil from the Tengiz

The first stage will have a capacity of 15m tons a year. But if large quantities of oil are proven underneath the Caspian sea, as expected, the region could be producing up to 60m tons of oil a year by the second decade of the 21st cen-

This would require both a higher capacity pipeline through Russia and agreement on a second and possibly third new pipeline through the Caucasus and Turkey to the east-Mediterranean and through fran to the Gulf.

ignificantly, the price of the CPC agreement, which unlocks the door to Kazakhstan's emergence as leading energy supplier to western markets, was a deal that leaves the Russian government and two Russian oil companies, Lukoil and Rosneft, with a combined 44 per cent share in a pipeline. Construction, however, will be financed mainly by Chevron, Mobil, Agip and British Gas. Attention is now focused on

hopes of a similar breakthrough in the gas sector following Gazorom's decision to pull out of its partnership with British Gas and Agip in the Karachaganak gas project. Its share may be taken by Luko'i. Up to now, development of

the Soviet-discovered gas field very conscious of the geo-strain the far north west of the country has been blocked by Gazprom's refusal to let Kaz-To survive, Kazakhstan akh gas through to world marneeds good relations with its kets or to pay world prices for two most powerful neighbours, the ageing and depleted Orenburg deposits only 150kms furmarkets in their own right. ther porth. They also control Kazakhstan's Big, capital intensive energy

projects such as these, along main access routes to the with ambitious gold and other To the west, a new 306km foreign-financed mining invest rail link between Kazakhstan ments, promise to transform and Iran has opened up a new. the economy and boost govern-Trans-Asian route between the ment revenues. But they will Chinese port of Lyanyungan only come on stream in the on the Yellow See and Istanbul next century.

Hopes for shorter term improvements in the economy of often difficult negotiations hinge on the privatisation of the Soviet-era behemoths, the mornins ago with an agreement development of private trade between Russia, Kazakhatan and the emergence of smalland medium-sized private manufacturing and service companies both to provide good quality consumer goods and to create jobs.

Investors from Russia, Israel,

IN THIS SURVEY



on the people of decades of poliution and nuclear testing

view with the principal architect of the 'new' Kazakhstan, the president, Mr Nursultar Nazerbayev

Diary of deals: the billiondollar investments agreed with governments and international companies so far this year

Ore-inspiring: a look at the progress being made in the excevation of the country's huge natural resources

Journey to the centre of the earth: Kazakhstan is at the heart of the east-west rail network. What needs to be done to develop infrastructure further

tum. Industrial output is officially forecast to rise only 2 per cent this year and the economy as a whole is expected to show zero growth after five years of

steep decline. But a 250 per cent increase in monthly production realised by the Indian-owned Ispat-Karmet steel complex near Karaganda only six months after privatisation, and the revitalisation of moribund iron and coal mines and ferro-alloy plants by the Russian/Israeli Trans-World Group, indicates that output and exports could rise much

more sharply than forecast. Agriculture also gives cause for optimism; if weather conditions remain favourable in July, a bumper grain harvest of around 15m tons, with 3.5m available for export, is a strong possibility.

The "feel-good" factor is not yet experienced by millions of ordinary people whose life remains hard. But the economy is definitely on the move. the markets and shops are lively and well stocked, inflation is relatively low and declining - massive foreign investments are starting to get underway. With luck and steady nerves Kazakhstan could be on its way to becom-An independent central bank will transport gas condensate. India and Korea have stepped ing the El Dorado of 21st cen-

The Republic of Kazakstan is a new emerging market. Halyk Savings Bank of Kazakstan is a leader in the Kazak financial market.

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insurance fund resources - is a bank intermediary for Government of Kazakstan in mass privatization program - extends credits to non-ferrous metallurgy. electric power and oil-extracting industry

enterprises - serves and supports foreign trade activities

> During 1995 assets have increased by 4,7 times, and capital by 3 times.

Balance Sheet

0	December 31	
9	Assets	KZT'000
1.1	Cash and balance with National Bank of the Republic of Kazakstan	1,033,985
fo	Loans and advances to banks less allowance for loan losses Debt securities	13,616,186 5,354,991
ort	Loans and advances to customers less allowance for loan losses investments	2,481,653 39,566
$\mathcal{D}\mathcal{C}$	Fixed assets less accumulated depreciation Other assets	1,783,050 444,439
	Total secute	24 752 070

Liabilities, share capital and reserves Deposits from banks and credit institutions 41,474 Customer accounts 22,093,484 Other Liabilities 945,555

Total liabilities, share capital and reserves

Total assets 24,753,870

Share capital and reserves Share capital 762,515 Reserves 910,842

Excerpt from the Annual Report for 1995

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Republic of Kazakstan, 480083,

Almary, Masanchy Str., 26

Tel.: (3272) 509991

Fax: (3272) 679738

HALYK SAVINGS BANK OF KAZAKSTAN:

- plans further expansion of its activities - plans to establish a subsidiary investment
- bank is involved in project designing and project
- varies its international activities: trade and commodity finance, corporate finance, For EX operations, operations with precious
- is expanding its operations in the securities
- increases financing of import replacing
- productions in Kazakstan - introduces original credit cards in
- Kazakstan is improving its payment system, expands its use of technology

Baloitta &

24,753,870

The Annual Report for 1995 has been audited by Deloitte & Touche according to International Accounting Standards (IAS).

We at Halyk Bank seek to build longterm relations with our business partners and clients. We strive to develop new forms of cooperation.

There are hopes that the dismal Kazakh farming record could be being reversed

Opening up the "Virgin stan for grain cultivation in the early 1960s was the Soviet equivalent of ploughing up the North American prairies.

In America, hardy pioneer: built private family farms and cattle ranches on the free or cheap land forcibly expropri-

aved from the indiana. In Kazakhstan the decision to plough up the virgin steppemunist party politburo headed by Nikita Khrushchev and Kazakhe who lived in easily transportable "yurts", or cir-

The virgin lands programme was aimed at raising the quantity and the security of the Soviet grain harvest and increasing the supply of meat. However, it was poorly planned and executed with total disregard for the welfare of the people involved. Thou-sands of "volunteers", many of them young students, were sent by the trainload and dropped off at points in the endless steppeland that was to be the site of vast new collec-

Frequent droughts, the short, five months maximum. growing season, the unexpectedly rapid decline in natural fertility and the need to apply large quantities of agroche cals meant that the virgin lands never fulfilled the high expectations of cheap and Soviet Union was forced to import increasing quantities of grain and meat for hard

But the main difficulty, even when the teething problems were overcome and tillions of extra roubles were thrown at the new collective and state farms, was always the hoge wastage and poor distribution natworks.

Every year, a high proportion of the grop either rotted in the fields, fell off the back of trucks bumping over rutted rate and birds in grain denots

First joint venture book is

Kavakstata

KAZKOMMERTS~

INTERNATIONAL BANK

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Zumat Bankasa, Turkey

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Officially, things have got worse since the Soviet system collapsed. The collective farms no longer receive seed, fertilisers or combine harvesters from the state; collective farmers, who used to be paid a regular salary like industrial workers, have not been paid for four years; the state no longer carts away the grain and mest. The collective farms are wailing.

Yet, strangely, there has never been more food in the exuberant, well-stocked private markets and privatised shops of Almaty and other towns. Food prices are out of reach of many pensioners and the new poor who used to get cheap basic food - proed they were prepared queue for hours. Much of the fruit and other food products comes from neighbouring Uzbekistan, brought by private traders who were forbid-

A bumper grain harvest of about 20m tons is being forecast

under the Soviet regime. But the market system is, often chaotically, taking root.

Last year a severe drought shed the grain harvest down to around 9m tons. This year, the snow lingered late and much of the grain-growing area, which extends from around 80kms north of Kareganda into southern Siberia. had good rainfall, Moisture levels are high and the grass. grazed by big herds of sheep and well-fed looking cattle, is lush as far as the eye can see

The government is officially forecasting a bumper grain pervest of around 20m tons, but it will not be possible to judge the output accurately until late July. A hot, dry July without rain, or an early wet autumn could still dash hopes.

Western grain iraders also caution that after five years of little or no pesticide or fertiliser application, the country will be lucky to get 15m tons. even if weather conditions remain favourable.

"At present the agricultural sector produces around \$4bn a

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other oil and gas industries together with Banque Paribas

Restructuring Kazakstan Airlines together with SH&E

Managing and restructuring lead and zine industries

GDP. With modern methods and better infrastructure, Kazakhstan could easily produce 20m tons of grain a year," says Mr Ben Benichi, a US grain trader. "At present, yields are around one ton per hectare compared with the EU average of 3.5 tons. If Kazakhstan god up to half of EU levels, which

sime." he adds. Mr Benichi runs Cargill-Dan, a joint venture between the US-based commodity trader and a local Kazakh company owned by a previous agricul-ture minister.

is quite possible, it could pro-

duce 25m tons of wheat

John Deere, New Holland and other agricultural equipment makers are trying to break into the market with modern, efficient aericultural machinery. Thus far they have en frustrated by lack of finance and the cash crisis of must collective farms. But last month the government ed that it was buying 1.000 new combine harvesters from Russia in exchange for future grain deliveries.

The new private banks are trying to find ways of increas tog the liquidity of the cashstarved farm system, but at present traders such as Cargill are the main catalysts for change in the sector.

"Our business is buying Kasakh wheat and barley from silos here for export. We are also looking at ways of importing vegetable oil and white sugar, which used to come mainly from Ukraine," Mr Benichl says.

Earlier this year, Cargill also bought a 60,000 capacity grain silo at Surgai from a privatised collective farm. It is offering to provide diesel fuel and other inputs in return for supplies of grain from local farms at pre-agreed terms.

We're providing a service and introducing the cash economy. But we insist on faifilment of contract terms. That's a new concept around here." savs Mr Benichi. We've been very impress

by the 'can-do' attitude of the people at the sile. They've had to make do and improvise for decades. We asked them to come up with cheep, effective ideas to improve the silo's. They're great," he adds.

Down, on the farm? USSR leaves a toxic legacy

Pollution from nuclear testing and cotton farming has created a huge health problem

Contempt for the health of people and the environment from both its Soviet rulers and the Chinese communist regime has left several large areas of the newly independent Kazakh republic with a terrible ecological legacy.

Thousands of hectares around the former nuclear arms testing ground of Seminalatinsk in north-east Kazakhstan will remain dangerously irradiated for centuries Fall. out from the Chimese success testing site at Lop Nor only 1.200kms from Almaty has often drifted across the Tien Shan mountains and over the Kazakh capital,

The other main ecological disaster is the destruction of the formerly fish-rich Aral Sea, in the centre of this enormous country. The ancient sea has shrunk to half its former size, exposing the thick layers of salt on what used to be part of its bed to erosion and flerce

The root cause is the damming of the Amu Darya and Syr Darya rivers, which once fed the see with fresh water from the mountains to the Soviet times to provide irrigation for monocultural cotton farming, which pollutes the remaining trickle of water with gricultural chemicals.

The heavy use of agro-chemicals in Soviet times, now discontinued for lack of funds. has polluted many rural regions. The strong concentration of heavily polluting ferrous and especially non-ferrous mining and smelting in eastern Rezakhstan has also polluted water supplies and the air in the republic's extensive industrial and mining areas.

Recent research by Dr Alma

Aknoba of the Geographic

Institute of Kazakhstan

revealed high concentrations

Eirst guair fed securates

GLOBAL-

KAZKOMMERTS

SECURITIES

lead and cadmitum in the

vital organs of residents of eastern Kezakhatan, Dr Aknoba found that lead levels were between two and 32 times higher then those in a control group in Almaty, while cad-2.18m. or 43 per cent.



Road to ruin...cotton pickers an route to work, Agrochemicals used in farming have poisoned water

times higher. The highest con-centrations were in fast-growing teenagers. Pollution at these levels has led to a steep rise in cancers, still births and

The plight of people living in the two main ecological disester areas is desperate.

in the Aral sea region around Aktyubinsk 90 per cent of children suffer from pollution-related illnesses and twothirds are victims of three or more pathological conditions principally respiratory, neurological and developmental disorders. Half the children suffer from anaemia while 68 per cent have excessive salt in their bodies from the age of three months. People all around the dried-up areas of the sea also suffer from a high level of allergic reactions.

Infant mortality levels contimue to rise, exacerbated not by ecological conditions but also by lack of medicine

and health care and the collanse of the social organisations that provided cheap milk and other essential foods. The state has been unable to shoulder the cost of services theoretically transferred from institutions of the old Soviet regime. Medicines, formerly supplied free or at nominal cost, are now only available to those able to pay the high prices for

amugaled drugs. But the worst pathologies are to be found in the Semipalatinsk region, where for more than 40 years the Soviet regime carried out atmospheric and underground nuclear tests, deliberately exposing local rest dents to high levels of nuclear fall-out over long periods. From 1949 to 1963 some 124

atmospheric explosions were carried out at Semipalatinak. followed by 343 underground explosions until 1989, some of which also resulted in accidental escapes of nuclear fall-out

ollution of ground water The Soviet president Mr Mik-hail Gorbachev stopped all testing in 1989. In the last years of perestroika a widely popular anti-nuclear movement called Nevada-Semipalatinsk emerged. In 1991 the Kaz-akh president, Mr Nursultan Nazarbayev, who was born in the region, issued a decree

But the legacy for the millions of people living in the test range area, which includes parts of the relatively heavily populated Semipalatinsk, Karaganda and Pavlodar regions, is much worse even than for the survivors of Hiroshims and Nagasaki.

closing the testing grounds for

The victims of the atom bomb attacks on the two Japanese cities at the end of the second world war suffered one single dose of gamma radiation. The victims of decades of nuclear testing in Kazakhstan

gamma radiation and chronic and continuing internal radiation due to the contamination of the food and water they eat and drink and the air they breathe.

in the second

In the regions surrounding the test site every third child is born dead or with serious mental and physical defects. More than 80 per cent of children are expected to develop various pathologies during their shortened lives. Between 1980 and 1989 the number of cases of severe anaemia also grew over six-fold. More and more children are suffering from the malignant tumours that are killing a rapidly-growing pro-

portion of adults. Cancer deaths in Semipals tinsk oblast rose seven-fold between 1975-85, mostly from tumours in the digestive organs, while 50 per cent of the population suffered from damage to their immune systems and 86 per cent from blood abnormalities.

Coping with a health and environmental problem of this scale is way beyond the current resources of a cashstrapped government struggling to maintain macro-economic stability and to attract the foreign investment needed to exploit the country's vast resource base in a profitable and environmentally-sensitive

But, as the nation's wealth increases, tackling the health and experiential traumas of worst victims of the Soviet years is expected to move smartly up the list of government priorities.

The return of the natives

The combination of Stalimist repression, famine and forcible transfer of populations has dramatically changed the ethnic mix of Kazakhetan.

According to the Tuerist census of 1897, some 8.4m Kazakha then made up 82 per cant of the population. In the 1980s around 1.5m to 2.5m Kazakha died from hunger, purges and exile to Siberia and elsewhere. By 1937 the number of Kazakha living in their homeland had fallen to

Hundreds of thousands more were killed serving in the Red Army during the war, while Tartars, Volga Germans, Chechens, Koreans, Poles and other "suspect" peoples were transferred en masee, under the supervision of the secret police, to internal exile in Kazakhstan Many were drafted in to

rebuild and staff the hun- the higher natural birth rate dreds of enterprises that were hastily dismantled and transferred to Kazakhstan and Siberia from the western parts of the Soviet Union to prevent them falling into Next hands at the start of the sac-

In the 1950s millions more Russians and Ukrainlans were sent to man the new mines, steel works, refineries and other industrial plants set up after the war and to plough up the fertile but arid By 1959 Kazakhs made up

only 30 per cent of the population while ethnic Russians constituted 43 per cent and held most of the key party, government, administrative and managerial positions.

began to shift back thanks to

of the Kazakhs, and the subquent emigration of thousands of ethnic Germans. Many Slave have meanwhile quietly returned to Russia. Ukraine and elsewhere fellowing the disintegration of the viet Union,

Today, native Kazakhs account for over 45 per cent of the population and may constitute the majority by the turn of the century.

Normal political control moved back into Kazakh hands in the early 1960s, with the appointment of Dinmukhamed Kunayev as the republic's communist party first secretary by Nikita Khrushchev, Stalin's successor. Most key posts remained in Slav hands, however.

Kunayev became one of the tew non-Slav members of the Moscow-based polithuro. When he died in 1986 Mr Mile hail Gorbachev, the new Soviet leader, replaced him with Mr Gennady Kolbin, an ethnic Russian, Within days of the terse announce the capital, then called Alms Ata, was convulsed by the first of the stheic revolts to shake the foundations of the multi-etimic Soviet state.

"I walked to work over blood-stained snow after sion by Russian soldiers who were flown in from Chelvathe locally-based troops," says a Kazakh eyewitness to the events of December 1986. not turn up for work on those days was questioned by the KGB and Kazakha were looked on as traiture. In those three days, I discovered the real nature of Soviet power."



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Economy: by Anthony Robinson

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mainline railways. Decades of geological explo-ration revealed some of the world's richest deposits of oil and gas, coal, and ferrous as well as non-ferrous metals, including some of the richest gold and uranium fields.

the verge of a prosperity unlike

anything else it has experi-

stan was transformed from a country of nomadic farmers on

the fringes of Czarist Russia

into a land of state and collec-

tive farms, mines and metallur-

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ted together by 14,000kms of

Under Soviet rule, Kazakh-

privation

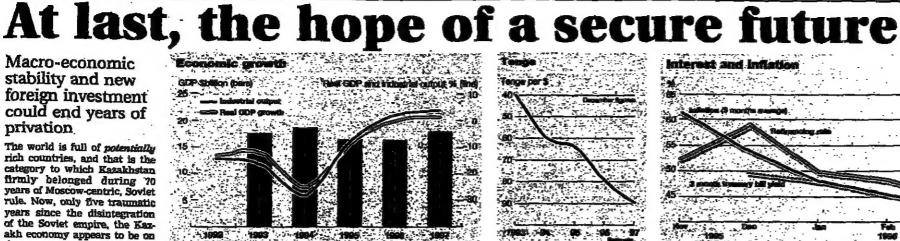
But under the wasteful, centralised and increasingly militarised Soviet system, Kazakhstan remained essentially a gigantic farm, quarry and producer of basic fron and steel products. These were transported to Russia and other more industrialised Soviet republics for downstream processing.

Above all, the Soviet Union's perennial shortage of capital and relatively low technological level (apart from in the military sphere) meant that it was never able to build the oil and gas wells and gold mines needed to exploit the region's resource base fully. The central planners did not create a climate for consumer and other light industries, which were woefully under-developed throughout the Soviet empire.

This lop-sided economic evelopment meant that Kazakbstan initially suffered cruelly from the disintegration of the Soviet Union and the collapse in inter-republican and Comecon trade that followed the abolition of the transferable rouble and central plan-

2-2-

*sperceding...



inability of the Soviet system to exploit the resource base. fully means that world class gas and oil deposits in the far west of the country around and under the Caspian sea, and the rich gold and other deposits scattered around the country, have attracted the attention of some of the world's biggest multinational energy and mineral companies. These compa-nies are capable of exploiting these resources in efficient, ecologically-sensitive ways that will create a stream of wealth for them - and for the government and people of Kaz-

The details of the biggest resource-based investments are to be found on pages 4 and 5 in projects.

Current account

Trade balance Exports, FOB

Imports, FOB

Service balance

Interest income Current transfers

Capital transfers

Errors and omissions

Change in meerved

this survey. The concern of the government is that the billions of dollars expected to flow into jects in remote areas of the country will create relatively few jobs for Katakhs and will only start generating wealth by the first decade of the next

In the meantime, the priority over the past 18 months has been to put in place the legal and institutional framework for a market economy and create macro-economic stability after two years of hyper-inflation and bungling by inexperi-enced economic policy makers that un-nerved foreign faves tors in gold and other resource

External trade (

-28 5,198 -5,228 -99 -151 59

-379 -652 680 528

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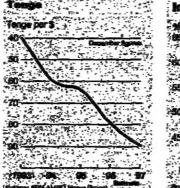
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A STATE OF THE STA
Security and a second s
Tight, IMF-monitored mone-
tary and fiscal policies were
introduced half way through
1984. Inflation fell from 1.880
per cent in 1994 to 180 per cent
last year, with the prospect of
a further decline to between
30-50 per cent this year. Exter- nal debt at around \$35n is low.

From now on, the economy should start to show steady growth. Official optimism may well understate the speed of the recovery, which is underway in

U\$\$m)					
96	Q2 95	O2 95	Q4 95		
8	0	73	-46		
4	75	112	-1		
5	1,306	1,683	1,375		
49	-1,230	-1,571	-1,376		
2	-37	-33	-8		
5	-50	-27	-49		
5	12	20	12		
,	-35	-133	-205		
3	-182	-173	-115		
5	153	159	214		
5	95	168	100		
3	-101	-286	-404		

-153

Externel debt (\$m)								
	1992	1993A	1994A	1995A	1996F	19971		
Foreign debt	. 35	1,200	1,970	3,060	3,000	3,300		
Debt service		125	205	300	303	363		
GDP	N/A	17.7	18.7	16.5	18.1	18.0		
Ratios								
Debt-to-GDP (%)	N/A	6.8	10.5	18.5	18.1	18.4		
Debt-service-to-GDP (%)	N/A	0.7	1.1	1.8	1,8	2.0		



The plunge in output that followed the loss of Soviet markets in 1991 has come to an end. Industrial production is expected to show an increase of around 2 per cent this year.

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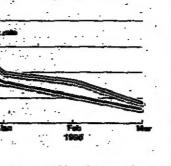
that have recently been sold to private investors have registered spectacular increases in output and exports over the time, mine output has been boosted and the revenue of the cash-strapped railway system The Karaganda Metallurgical

Combinat (Karmet), the country's only integrated steel plant was only producing 100,000 tons a month at the end of last year, and 90 per cent of its output was sold for barter. This left the plant unable to pay either its workers or its suppliers. But, in November, it was sold to the London-based, Indian-owned Ispat steel group. By May the new owners had boosted output to 250,000 tons a month, all of which was sold for cash, and over 90 per cent, worth around \$55m, was exported. Kick-starting the existing

economic structure back into life on a more rational, cash not barter basis, appears to have created the start of a virtnous cycle of growth. It has also established a new basis for a resumption of trade with Russia and the rest of the world.

By trading on a barter basis, Soviet-era companies were able to keep their plants ticking over. But barter starved enterprises of cash and working capital. They were unable to pay suppliers or workers and totally incapable of new investment or anything but the most minimal care and mainte-

But with new foreign owners such as London-based Ispat,



Samsung of Korea, now in charge, the mines and metallurgical plants are paying cash for goods and services and exporting a high proportion of

In this way, they are ensuring the rapid development of a normal" economy with a built-in multiplier effect as workers spend their back-pay and suppliers of goods and services, including the cashstrapped railways, start repaying their debts and making modest investments.

Reducing the estimated \$10bn overhang of inter-enterprise debt is one of the priorities of the central bank. Its other main objective is to ensure that the billions of dollars now starting to flow in for the big new resource development projects do not lead to an inflationary surge in money supply again. We are prepared to starilise

excess money if necessary and we are also in favour of keeping a flexible exchange rate regime," says Mr Uraz Dzhandosov, president of the National Bank of Kazakhstan. But international bankers still worry that a surge of for-

eign capital into government coffers could well reduce the pressure to complete the tax and other reforms needed to reverse a decline in state revenues and put state finances on But tehnical worries like these are a far cry from the dilemmas faced by economic

policy makers over the last five years. The economy is on the move. The only real question now is how far and how fast it

INTERVIEW The president

Trust of people key to reform

It is a few days before his a three-year mid-term eco-56th birthday, on July 6, and Mr Nursultan Nazarbayev, Kazakhstan's first president, is looking back on a good year. In the previous three months alone his government has signed nearly a dozen contracts worth between 200m and \$1.5bn each. "Why have so many come

now and not earlier?" he asks himself, sitting on the tip of a chair in his mahogany office as if in a hurry to go back to work. "Little time has passed since Kazakhstan became an independent state and many foreign companies used to take a wait-and-see attitude, watching how others were doing. The main thing is that big companies came to Kazakhstan and have started to work successfully. That attracts others. "Last year, we adopted 130

market-oriented laws. Forsign investors especially responded well to the foreign investment law, the law on mineral resources, the law on oil, the law on mortgages, and the tax code that was adopted by Kazakhstan. It has no equal in the CIS and gives clear guarantees to foreign investments on repatriation of the profits," he continues, but then adds quickly: That's not enough. The Supreme Economic Council of the president works on preparing documents that should improve the tax climate, with tax holidays and

Turning to the state of the domestic economy, the president says: "Kazakhstan, like other post-Soviet states, has only just reached macro-economic stabilisation. In 1994 we had 1260 per cent inflation, last year it was 60 per cent, this year we plan for 30 per cent. Next year, we hope for 9 to 12 per cent, and in 1998 we need have 2 or 3 per cent inflation to function like any normal canitalist state These are hard targets to

reach. In such conditions, the government carries a heavy burden. Last year I approved

nomic programme. It calls for raising people's average income by two and a half times, higher pensions, a 2 or 3 per cent rise in annual output starting 1997, a stable national currency, an increase in the gold reserves. a rise in Gross National Product each year. We have to give the cabinet the chance



per cent inflation by 1998

to fulfil that programme." Asked what worries him before he goes to bed at night, Mr Nazarbayev pauses for only a second. "We need to improve the lives of the people of Kazakhstan faster. If we don't do that quickly the population may get fed up. Those investments that came to Kazakhstan - \$2.5bn in the past two years, \$5hm in the past five years - they went to capital-intensive projects which will only bear fruit in three to four years. The Caspian Pipeline Consortium contract greatly enhances the potential of Kazakhstan. Last year for the first time, exports exceeded imports. All that enables me to make an optimistic prediction that we are close to really improving the lives of my people. The faster we improve the lives of the people, the more they trust in our reforms. And that will provide strength to our

Sander Thoenes

Politics and foreign policy: by Sander Thoenes

Tough at home, tactful away

The president has strengthened his own role without alienating his

In June, the Kazakh parliament tried to wield the only power it had left - the power to vote down laws. The Mazhilis, the lower house of a parliament that was elected last year, rejected a draft law that would have raised the retirement age by three years. But the government of the prime minister. Mr Akezhan Kazhegeldin, re-submitted the bill and put it to a vote of confidence. A rejection would have forced the president, Mr Nursultan Nazarbayev, to dismiss the cabinet or dissolve

Mr Nazarbayev has twice faced an unfriendly parliament, and has twice managed to get it replaced, each time with fewer powers and a greater number of presidential loyalists. This time, he backed his prime minister. Parliament voted 76 to 29 to approve the bill. "They didn't vote for Kazhegeldin. They voted to keep their job," one Western diplomat says. "It was a game. The parliamentarians just

wanted to show they existed." The vote illustrates the formidable power Mr Nazarbayev has amassed in recent years, mainly at parliament's expense. Even the Communist Party, Kazakhstan's largest movement, with a claimed membership of 48,000, poses little of a threat to his rule. When the government objected to the party's statutes, which still called for a dictatorship of the proletariat, the Communists quietly obliged by delet-

ing the controversial phrases. His tough stance with the opposition has brought Mr Nazarbayev criticism from Western politicians but praise from Western business executives in Almaty. Investors point to the political stability in Kazakhstan, and at the more than 100 laws, many designed to attract foreign in estment, that Mr Nazar-b: we pushed through while there was no parliament last year. (The previous parliament, by contrast, adopted only seven laws in one year.) Mr Nazarboyev says his people simply lack the tradition of organised opposition that, in

neighbooring Russia, gave rise

to a powerful Communist

"But Russia is Europe and we are the East. Our people see what problems there are in the countries surrounding us. We have convinced people that for economic reforms to succeed, so that people will live better, we need peace and quiet, politi-cal stability and inter-ethnic accord. In the beginning, I had to create all the parties by myself. I set up the Socialist Party, I set up the People's Congress, I created the Union of National Unity," he says, allowing himself to chuckle like a schoolboy who has managed to get away with cribbing. "There was no practice, no tra-dition. For hundreds of years

everywhere else is impossible." In preventing unrest among 'For hundreds of years, we lived under totalitarianism, to change in five is hard'

we lived in totalitarian condi-

tions, and in three, four, five

years to become the same as

the Russian minority who dominate the provinces bordering Russia, Mr Nazarbayev has been amenable to compromise. Kazakhstan's Russian community is large, estimated at 34 per cent of the population, and many people work in the out-dated factories that are among the hardest hit by reforms.

Power has shifted into ethnic Kazakh hands since the disso-lution of the Soviet Union. But Kazakhstan has been careful to avoid overt discrimination against the Russian minority. Russian and German schools are officially encouraged to stay open, though they now have to teach Kazakh as a second language. Mr Nazarbayev tends to address his people more often in Russian than in

Kazakh. According to official statistics, only 25,000 people emigrated from Kazakhstan in the first quarter of this year, compared with half a million in 1994. "The problem was serious two years ago, but it's not so tense now," one diplomat says, Maybe the Russians realised the situation was not much better in Russia and that in the

Party. "Freedom of speech is future it will be possible to make good money in Kazakh-There are over 40 parties and movements here," he says.

A similar willingness to com-

A similar willingness to com-promise has enabled Mr Nazarbayey to avoid a conflict with the two superpowers that surround him, Russia and China. Russia still controls access to export routes for oil and gas; it is the leading trade partner and the dominant military force in the region. Unlike the Baltics or neighbouring Uzbekistan, Kazakhstan has no choice but to live with Russia. Lest year, Kazakhstan joined

a customs union with Russia that now includes Belarus and Eyrgyzstan. Critics say the union benefits Russia and was designed to boost the ratings of Russia's president, Mr Boris Yeltsin, in presidential elections last week.
Mr Nazarbayev demurs.

"The bottom line is - whatever is advantageous to Kazakh-stan," he says. "We initiated the customs under with Russia. I don't see any politics here. I see pure economics." Citing a sharp rise in trade with Russia in the past half year, he adds: "Why should we let the Russian market pass us by? It's profitable for us to send our goods there.

"When we signed the quadrilateral agreement," he adds, we made sure that this agreement would not clip our wings and that it would leave no room for imperial ambitions." In return for his support, as well as a large Russian stake, Mr Yeltsin in April signed an agreement with Mr Nazarbayev on the construction of a vital pipeline that will enable Kazakhstan to export its oil. Russia has also muted its objections to Kazakh exploration of its part of the Caspian Sea Shelf, though its diplomats still insist the Caspian's resources should be jointly

owned and exploited. Similarly, Mr Nazarbayev has kept quiet about Chinese nuclear tests, just across the border, and has cracked down on the Ulgar minority that supports an Ulgur independence movement in northern China "They want no problems in the East and they are willing to make any concession," one diplomat says. "It's simply too dangerous for them

not to." The danger is not imminent, but hard to ignore. An overcrowded China is only 300km says.
from the capital and could one Kazher day revive old claims on Kar- powerful, but maybe there was akhstan's south-east. Thou- no alternative."

emigrated to eastern Kazakh stan, trading and running small businesses. One presidential side says that fear of China is one reason why Mr Nazarbayev has decided to relocate the capital to Akmola, in the north.

"It's not so much that we want to be close to Russia." he says. "We just don't want to be close to China." Kazakhstan's soft stance has also brought an early pay-off Mr Nazarbayev won access to Chinese railways and the port of Lyanyungan, opening up the South-East Asian markets to Kazakh met-

als and other products. A less obvious threat to Mr Nazarbayev's authority has been a power struggle, well hidden behind the walls of his palace, with his prime minis-ter, Mr Kazhegeldin. "Nazarbayev realised that Kazhegel din was becoming too powerful and was crossing into his turf,"

They want no problems in the east and they are willing to make any concession'

one diplomat says. Diplomats and Kazakh observers say that Mr Karhegeldin boosted his powers not fust by turning the economy around but also by pushing the president's allies out of the cabinet and building a power base among the country's emerging business élite.

They had expected the president to sack Mr Karber early this spring, but at the last minute Mr Nazarbayev kent Mr Kazhegeldin in place Mr Vitaly Mette, a deputy prime minister and ally of the president, was sacked instead. The president has in recent months focused on foreign relations and domestic politics, leaving the economy largely to his prime minister. Mr Nazarbayev admits he has backed out of the daily economic decision making but denies there has been any conflicts with his prime minister. The relations between the president and Mr Kazhegeldin have changed since February," the diplomat says. "They made a deal. aldin was becoming too THE EXPORT-IMPORT BANK OF THE REPUBLIC OF KAZAKSTAN

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> Consolidated balance of Eximbank Kazakstan as of January 1, 1996

KZT Thousands Exchange rate: USD 1 = 63.9 KZT Assets 409 Cash

Claims on National Bank 45525 Claims on other Banks 1947679 Claims on Clients 2801903 Securities for Resale 69083 Reserve -1180Fixed and Tangible Assets 1121151 Intangible Assets 570 Interest Earned 11978 Other Assets 25935 6023053 **Total Assets**

Liabilities Liabilities to other Banks 100000 Liabilities to Clients 2040438 Other Liabilities 157305 Charter Capital 3206055 Bank funds 519255 Total liabilities and Capital 6023053 Annual profit-and-loss account KZT thousands

Net interest income 126 211 Net non interest income 7618 133 829 Profit Before Taxation

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634300 internet: EXIMBALM@SOVAM.COM **Banking:** by Anthony Robinson

Two tiers take shape

the EBRD has helped quicken the pace of reform

The spade work to build a solid basis for the Kazakh banking system took place in the second half of 1994 when the government and central bank put in place an IMF-supervised stabilisation programme. This sought to repair the damage created by a bungled bail-out of loss-making enterprises that caused a hyper-inflationary surge in money supply over the first half of that year.

The re-establishment of macro-economic stability since 1995 has underpinned the tenge, the national currency introduced in December 1993. and permitted the core group of young central hank managers, led by Mr Uraz Dzhandosov, the president of the National Bank of Kazakhstan (NBK) and Mr Grigory Marchenko, the head of banking supervision, to move forward with policies designed to consolidate the banking system

and toughen supervision. Banking sector reform is being helped by the World Bank, the European Bank for Reconstruction and Development and others. The EBRD is taking equity stakes in some of the fledgling private banks and provides medium-term finance for on-lending to small- and medium-sized enterprises. Last loan to help improve the banking environment and tackle the extensive inter-enterprise debt and bad loan problem.

Mr Dahandosov, president of the NBK, estimates that the volume of inter-enterprise debt is around 700bn tenge, just under \$10bn. This is equivalent to around 70 per cent of an estimated gross domestic product of between \$16bn-18bn. "The problem is bad, and the volume of inter-enterprise debt is still growing," he adds. The World Bank loan will

help finance the transfer of non-performing loans, taken on by the state-owned banks at the government's request in the early transition years, to special state work-out entities, such as the Rehabilitation Bank, the Agricultural Support Fund and the Ministry of Finance. In many cases, transfer to these bodies will be the ante-chamber to bankruptcy for the debtor.

Mr Dzhandosov says that unrealistic state budgeting is one of the main reasons for the continuing rise in inter-enterprise debt. "Tax inflows are insufficient and the government essentially takes goods and services without paying for them. The main areas of non-payment are the agricultural sector and transport and utilities such as heating and electricity," he adds.

Another root cause of the inter-enterprise debt problem

distribution were all in the hands of central planners and the exchange of goods was

largely cashless. Under these conditions, the development of a modern, twotier banking system is a prerequisite for the transition to a monetised, market economy. Substantial progress has been made towards this goal over the nast 18 months and even bigger changes are expected over the next two years.

The independent central bank is at the heart of a banking reform that has already cut down the number of private banks from more than 200 to just over 100 and seeks to re-vitalise the four hig state-owned former specialised banks that form the core of the system.

In some ways, the most important of the four stateowned banks is the Narodni bank, the ubiquitous state savings bank. Also known by its Kazakh name of Halyk Bank, it boasts more than 10m savings accounts and an unrivalled branch network through which it collects the bulk of Kazakh savings. Access to the nation's savings means that Narodni/Halyk bank dominates the interbank money market. It is both the main credit wholesaler and the effective lender of last resort to the Kazakh banking system.

"The savings bank has kept the system together as the central bank has withdrawn from

Assistance from the World Bank is the culture of non-payment. active participation in the World Bank and financial sector adjustment Soviet regime when inputs and moving away from its original specialised role. It is spreading its wings by moving into trade finance and other banking operations," notes Mr Paul Maxwell, managing director of ABN Amro in Almaty.

Alem bank, the former foreign trade bank, got its fingers badly burned last year when a series of Turkish Ex-Im bankbacked deals went wrong, leav-ing the capital dotted with unfinished Turkish-built hotels and office blocks. Two Turkish banks, Ziraat bank and Emlak bank, have joint ventures with Kazakh banks. Financing packages to complete the 80 per cent finished Ankara Hotel and Alem hanking centre should be finalised shortly.

In the meantime, Alem bank, which is also saddled with had debts, faces an uncertain future and is presently under

special supervision.

The problem with the stateowned banks is that they are all saddled with big bad-loan portfolios and staffed mainly with people used to operating under the old regime where concepts like risk assess credit-worthiness and rate of return were unknown. They face growing competition from some of the more aggressive new private banks such as Kazkomertsbank (KKB) which have young, fast-learning staff attuned to modern banking practice and unburdened by inherited bad debt." Mr Maxwell of ABN says.

Foreign banks force change

Giving overseas rivals access to the market is seen as critical to banking modernisation

"One of the main aims of our banking policy is to encourage the emergence of a small core of Karakh banks, capitalised to the standards set by the Bank for International Settlements and able to compete with foreign banks. says Mr Uraz Dzhandosov, the Bank of Kazakhstan (NBK).

The decision to pursue a lib-eral policy towards the entry of foreign banks is seen as crucial to the move to a competitive banking system.

"Legally, we still have a ceiling that restricts foreign banks to under 25 per cent of the overall capital of the banking system. But since January we have had the authority to go above that on a case-by-case basis. We want to end all restrictions on the entry of foreign banks by the end of 1998. By then we hope to have a relatively small core of five or six Kazakh banks maybe even fewer - which are able to compete with foreign banks," the NBK president adds.

The rise of the foreign banks should run in parallel with the growth of foreign investment. The flow of biltions of dollars from multinational oil, gas and mineral

should encourage other overseas investors in the next few years and create more banking opportunities. The NBK first eurobond issue. believes that the foreign hanks will, initially, at least, concentrate on servicing foreign companies and on foreign exchange and investment banking operations.

This will still leave space

companies into the country banking arm, Houre Govett, it recently won the 17-bank international tender competition to prepare Kazakhstan's "Initially, we are advising

the NBK on a credit rating, which we expect to achieve by September. We then hope to launch what is expected to be an initial \$100m Eurobond issue by the end of Novem-



their own links with foreign companies and build up their business with the fast-growing local private con At present ABN-AMRO, the Netherlands-based interna-

tional bank, is the only foreign bank with a full banking licence operating in the country. Apart from handling the usual commercial banking business. ABN is also a pri mary dealer in government securities. Together with its London based investment

who manages ABN's operation in Almaty. Kazkomperessive and innovative of the new private Kazakh banks has a 29 per cent stake in ABN's Kazakh operation and receives technical and other assistance from its

Dutch partner. Almaty is also the headquarters of Eurasiabank, a very different kind of foreign bank. Mr Alexander Mashkevich, a former psychology pro-

Trust management: by Sander Thoenes

Cool capital,

heated debate

fessor from Bishkek, the canital of neighbouring Kyrgyzstan, sits in a large room that has a white carpet and elegant walnut furniture. He is guarded by armed young men with pistols in shoulder hol-

sters who prowl the ante-chamber to his office. Financial backing for the bank, which has the Londonhased Trans-World Group as a leading shareholder, comes from Russia and Israel. Mr Mashkevich describes Euraslabank as an investment hank. Over the last two years it has become the owner of a string of large aluminium. ferrous alloy and steel plants together with iron ore mines

Kazakhstan and Russia. Eurasiabank is one of the main forces for the re-organieation and modernisation of the former Soviet-style economy. Mr Mashvevich says the bank creates wealth by proriding working capital and imputs to re-start moribund capital-starved Soviet era plants and by cutting costs and selling the finished product for cash.

and power stations in both

Meanwhile, a raft of other foreign banks, including Citibank, Deutsche Bank, Dreadner Bank. Commerzhank Union Bank of Switzerland and Société Générale of France, have offices in the Kazakh capital and several are expected to set up full banking operations shortly.

Anthony Robinson

■ New legislation: by Sander Thoenes

Certain taxes, fewer duties

The president's investment laws need refining but lay the basis for a modern tax system

When the president, Mr Nursultan Nazarbayev, dissolved parliament in early 1995, it had taken more than a year to adopt seven laws. By the time Mr Nazarbayev allowed new elections in December he had passed more than 100 decrees and produced a constitution that was approved by a referendum.

This barrage of legislation, including a new tax code, puts Kazakhstan far ahead of its neighbours in creating a legal basis for investors. "The foundation has clearly been laid." says Mr Fred Tresca, consultant to the government for Price Waterhouse. "But there is still much work to be done in implementing and refining

In the rush to legislate, some laws were not properly considered and others have been badly publicised. If local officials are not aware of their existence, they can hardly be

expected to implement them. We have the right words on paper," says Mr Daniel Witt, president of the International Tax and Investment Centre, "but it's a whole different world out there in the oblasts

[regional authorities]." The tax code cuts the number of taxes from 45 to II, putting an end to many overlapping duties. "It's the best tax code in the former Soviet Union," says Mr Witt, who helped to write it. "It's broad-

Mr Mike Whitear, a tax consultant to the government, is more cautious. "It's a pretty good, modern tax code, but it's also rather vague," he says. "The Kazakhs have been rather strict in their interpreta-

According to Mr Whitear, the code has none of the turnover taxes that put off investors in other former Soviet republics, but it leaves little room for deductibles, pushing up operating expenses.

One simple move that pleased many investors was the abolition on July 1 of all export tariffs, introduced a few years ago to halt a rapid outflow of subsidised Soviet com-

modifies. Export tariffs never did much to stem that flow, however, and now that prices have risen close to world levels, they have turned into unnecessary barriers to trade. Mr Trek Begakhmetov, deputy economics minister, says that his government is still considering alternative ways to prevent the dumping of Kazakh natural resources on the world market. Licences are one option but western economists caution that they would do

more harm than good. Oil, gas and gold producers are less worried about a draft law on taxation of natural resources, which would introduce royalties, excess profit taxes and three bonuses. The government has hurried along with this draft and may submit

it to parliament this summer. "On the face of it, the tax terms are not very attractive." Mr Whitear says. "It looks as though it's going to be pretty

tough.
"It seems that absolutely everything is going to be negotlable," he adds. "I think that's bad. A company will have to negotiate before it has put the economics of the project on

The draft tax law would be slightly tougher on investors than its Australian counterpart, Mr Whitear says, but adds: "companies investing in Kazakhstan would look for a higher rate of return because of the political risk".

According to Mr Russell Lambert, tax consultant for

The lobby of the Marco Polo

Rakhat Palace, Almaty's most

luxurious hotel, has been

bustling with Western execu-

tives, top officials, lawyers

and consultants in the past

three months. The result has

been a wave of investment

that promises to make last

year's \$1bn inflow look like a

trickle. Below is a suspenot of

this year's deals:

April 27 Russian president.

Mr Boris Yeltsin and Mr Nur-

sultan Nazarbayev, his Kaz-

akh counterpart, sign an

agreement on the Caspian Pipeline Consortium, which should unlock the wealth of

Tengiz and other oil fields in

vestern Kazakhstan by link-

ing them to Novorosstisk, the

Russian oil export harbour on

the Black Sea. Chevron,

Mobil, British Gas, Agip, Oryx

and later Shell, together with

the Russian oil companies

Lukoil and Rosneft, agree to

finance construction of the

pipeline in exchange for guar-

anteed access. A contract

should be finalised later this

year. Value: \$1.5bn; unlocks \$30ba in investments.

May 3 Mobil Oil agrees to

buy a 25 per cent stake in

Tengizchevroil, Chevron's

production venture at the

Tengiz field. Chevron keeps 50

per cent, as before; the gov-ernment of Kazakhstan sells

half of its stake to Mobil for

May 25 Deutsche Telekom

agrees in principle to upgrade

Kazakhtelecom, the country's

telephone network, and pay

off the monopoly's debts,

including those to its workers.

\$1.1bn.

Price Waterhouse, "Kazakhstan is trying to entice investment, and its main resources are oil and gas. It's hard to entice investment if you have a hard-structured tax code that you're not able to negotiate on. Most oil companies already have their major deals done or in progress, so they feel pretty comfortable that this tax code won't apply to them. But all your existing memo deals that aren't done yet will have to

The 1996 diary of deals

In return, the company will

shares, plus management con-

trol for up to 15 years. Value:

\$536m in investments and

trader, wins a privatisation

tender for 90 per cent of the Chimkent Refinery, Kazakh-

stan's largest. Value: \$230m

in cash and investment

pledges.

June 1 Samson, the US oil

producer, wins exclusive

rights to negotiate for 90 per

cent of the Yuzhneftegaz oil

production association, which has proven hydrocarbon

reserves of 90m tons. The bid

is not disclosed, and the par-

ties are still in negotiations in

July, but when a contract is

signed the investment pledge

June 5 Trans-World Group

the London-based metal

trader and producer, announces plans to build a

new aluminium plant and

boost production at an exist-

ing alumina plant in Pavio-

dar, in northern Kazakhstan.

Value: \$1.2bn to \$1.5bn. The

group sava it hopes to create

June 17 Samsung Deutsch-

land, a German subsidiary of

the Korean industry group,

purchases a 40 per cent stake in the Zhezkazkantsvetmet

copper plant in central Kaz-akhstan. Officials call the pur-

chase price "a commercial

invest just over \$1bn in the

three to five years.

5,000-10,000 jobs in the next

should exceed \$500m.

debt payments.

obtain 49 per cent of voting sidiary of the British-based

May 30 Vitol, the Dutch oil ing payments of old debts.

come under this code and that's where you'll have major

Most tax experts agree, however, that even bad tax laws are better than the chaos that preceded them. "I think everyone would rather pay a little higher rate with certainty than a low rate with uncertainty," says Mr Charles McClure, eco nomic adviser at the Hoover Institute in California. "The certainty is a lot greater now.

■ June 18 Ignet-Kermet, sub-

steel producer Ispat,

announces the acquisition of

15 coal mines in northern

Kazakhstan for \$182m, includ-

The company has owned a

nearby coal-fired power plant

- bought for \$2.4m - since

April. Both companies are

suppliers to Ispat's largest

investment, the Karmet steel plant. Total investments this

June 18 Asea Brown

Boveri Holland, part of the

Swiss-Swedish industry

group, pledges to build,

finance and operate a 320

megawatt power plant in Kaz-

akhstan. The power plant

should come on-line around

the turn of the century. The

final agreement may yet hit disagreements over electricity

• July 3 A consortium of

three Western gold compa-

nies, Teck, First Dynasty and

Bakyrchik Gold, signs a con-

tract for an 80 per cent stake

in the Vasilkovskoye gold ore

deposit, which has proven

extractable reserves of 6.5m

troy ounce. The group began

negotiations in June with the

offer of \$360m and a bonus of

Forthcoming investments

events: the purchase of a stake in the Aktyubinsk oil produc-

tion association, which has

with proven reserves of 200m tons. Exxon and Texaco are

Sander Thoenes

fees. Investments: \$350m.

year, well over \$200m.

successful but controversial In its bid to breathe new life

into moribund state-owned enterprises the Kazakh government opted for a controversial alternative to privatisation, called trust management. Rather than sell off all its ailing industries through direct privatisation or liquidation of assets, the government has handed over the management of 65 of its largest enterprises, including most of its metals industry, to domestic and for-

The method of

attracting investors

to state industry is

eign investors. Under the trust management scheme, the investor signs a contract for two to 10 years, pledging to boost production and pay off debts and overdue _selaries. In return he gets full management control, a margin on the profits or sale revenues, and first choice in any privatisation. The government has the right to cancel the contract at any time it feels the obligations have not been met.

The trust management programme has been the subject of fierce debate. Even its architects admit that four out of 10 contracts have been a failure. Worse, the murky legal status of the trust management con-tracts has wreaked havoc on many of the smaller suppliers and customers of the enterprises involved. The new managers usually demanded and got the right to suspend existing contracts and debt payments on contracts they deemed unfair. In some cases, more than \$100m in debts has been frozen, pushing numerous traders and suppliers into bankruptcy.

Mr Sarybai Kalmurzayev, chairman of the State Property Committee, defends the strategy. "We chose the lesser of two evils," he says. "The best option is a sale, a full-scale privatisation. But if an enterprise has not been producing for six or seven months, how can you say what its shares are worth? That's why companies were handed over to trust management. We want to get the enterprises back on their feet

before selling them off," We had no choice but to freeze the debts. If these enterprises had collapsed completely, what guarantee would there be that any debis would ever be paid? :The assets of Kazakh enterprises were not worth much to begin with."

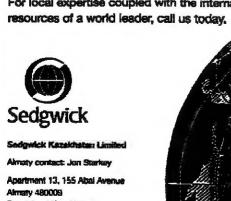
According to Mr Alexander

Mashkevich, president of Eurasiabank, whose operations are financed in part by Trans-World Group, a London-based metal trader and producer with interests in Russia, the programme is unusually progressive. "What is happening here is unprecedented," he says. "Investors come in, pay the debts, pay the salaries and promise to invest. For the state, this approach is simply ideal. We went to the government for example and said we're ready to try." Within months of initially taking management control of three leading metallurgy plants, Kurasia bank purchased majority shares in all of them at sums officials call "a commercialsecret". Mr Mashkevich says he has invested more than 51bn in the plants. In June he armounced that together with Trans-World, Eurasiabank plans to spend \$1.2bn building a new aluminium smelter at Pavlodar. It will use alumina from a nearby plant instead of

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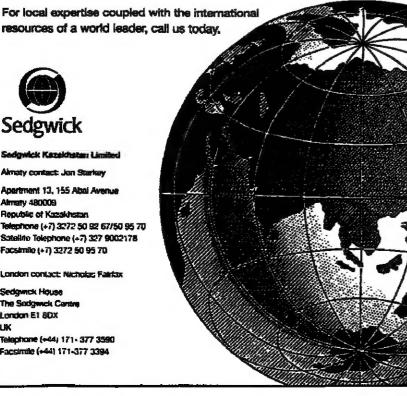
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considering making a bid. next 15 years and says it has

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The miles Maria Hara Market Brief

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'Monsters' roar again

Foreign investment tional wisdom has been proven means metallurgy plants can once more be pillars of the economy

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of capital,

ated debate

The conventional wisdom among foreign investors in the former Soviet Union is that the giant metallurgy plants that dot the 15 republics are a write-off - too inefficient, too old, too deeply in debt, and simply too big to become prof-

wrong. Two years ago, most of the mines and smelters were on the verge of closure, some had debts of up to \$500m, unpaid employees and produc-tion lines that were at a standstill. The break-up of the Soviet Union had deprived them of traditional customers in Rus-sia, while the Kazakh government had run out of funds to

subsidise them. In addition, many Soviet-era factory directors had plundered assets, selling off metal table. chesply and signing unprofits-in Kazakhstan that conven-ble supply contracts for kick-

conglomerate that signed a management contract for a copper smelter, was one com-pany that discovered such abuse. It found that \$190m was missing at the Zhezkazkantsveimet copper smelter it took over in central Kazakhstan. We were very surprised about the way the previous manage-ment went about its business." Mr Jong-Wan Lim, commercial director, says. "A lot of con-tracts were fictitious, and the money had disappeared."

Samsung subsequently

bought 40 per cent of the Zhez-

kazkantsvetmet plant and hopes to obtain a majority share later this year. It has invested \$200m, has already doubled production to 18,000 tons of copper a month, and plans to invest another \$1bm over the next 15 years. Mr Alexander Mashkevich.

vice president of Eurasiabank, an Almaty-based investment bank that specialises in metals, remembers how another such plant almost went bankrupt. "The Yermakov Ferroalloy Plant was a monster, the largest in the world - one million tons a year," he says, sitting in

	1993	1994	1995
ron	5,705.0	4,822.5	7.211.5
Rolling steel	3,436.0	2,356.9	2.140.9
Chrome	2,820.0	2,102.6	2,416.6
Ferroalloys	776.6	635.3	782.3
Refined copper	317.5	278.4	255.6
Zine	238.5	172.5	169.1
Gold	13.7	14,1	14.8

his elegant office besides a giant Kazakh flag. "But nobody cared where the metal went, and it almost died. Nobody thought about money or had any idea what a market was. They didn't even know what assets or liabilities were." Eurasiabank now owns the Yermakov factory, along with

a nearby chrome mine and a

the Pavlodar aluminium plant and the Sokolovsko-Sarbaiskoye iron ore mine and has revived production at four of these five enterprises. In the past year, most of Kaz-

akhstan's large metal mines and smelters have been sold off to private investors, mostly foreign. As well as Samsung,

second smelter. It also owns

they include Gerald Metals, Glencore, and Kazkommerts-Bank, a leading Kazakh private bank that has gained control over three large lead and zinc plants near Ust-Kamenogorsk. and World Wide Minerals. The last is a Toronto-based mining company that won a tender for the exclusive right to negotiate a management contract for a substantial mining and processing complex for uranium, gold, industrial diamonds and phosphates in Stepnogorsk.

Of the metallurgy plants, only the Balkhashmed copper smelter is still up for grabs. But investors have been circling around that plant as well. Since new investors have moved in, most have boosted production and their success has encouraged others. Getting

the metals out of the country has been a challenge (see infrastructure story, page 6) and metal prices have been weak, but margins and cash flow have been sufficient to allow for self-financed expansion of output. "The enterprises have started to breathe again." Mr Mashkevich says. This is of vital importance

for the Kazakh economy. Metal exports accounted for 45 per cent of export revenues in 1995, cent for oil and gas, the country's more famous commodities. A boom in metal exports could bring the cash-starved Kazakh budget quick and size-able revenues. By contrast, it will take several years for the oil and gas fields to yield such

Karmet steel plant: by Anthony Robinson

New jobs, new markets

How the giant mill is at last adjusting to the modern economy

When the Karaganda Metal Complex (Karmet), emerged in the early 1960s from the featureless steppe near the village of Timirtau, 20kms north of Karaganda in central Kazakhstan, it was hailed as a triumph of Soviet labour.

Today, building an integrated steel mill with the capacity of Karmet - 6m tons a year - would cost an estimated \$8-10bn. But times and technology have moved

on. Steel companies now opt for cheaper, less polluting and more productive mini-mills. The days of giant plants are over. Karmet, and plants like it all over the former Soviet Union, have had difficulty in

adjusting to the nascent market economy. But what has happened here over the past eight months indicates that there could still be a prosperous future for plants that until recently were dismissed as dinosaurs.

Karmet, formerly the second largest steel plant in the entire Soviet Union, used to account for around 12 per cent of Kazakhetan's total gross domestic product. All the steel it could produce was absorbed by insetiable, Moscow central planners.

But it became one of the main victims of the new era of uncertainty. Its Soviet-era managers floundered and then plundered the plant. Attempts to replace them with western "contract managers" failed dismally. Voest Alpine of Austria and then US steel, together with Eisenberg, an israeli steel group, tried briefly but unsuccessfully to pull the plant back from the brink of extinction last year.

With an air of increasing desperation, the Kazakh president, Mr Nursultan Nazarbayev, who began his career as a steelplant's communist party secretary, searched for a solution.

For a while, it looked as though Mr Alexander Mashkevich, the managing director of Eurasiabank, might be the answer. An Almaty-based investment bank with close Russian and Israeli connections, Eurasia controls the Sokolkovsko-Sarbaisky iron ore mine 500kms west of Karmet that supplies the steel complex.

in north eastern Kazakhstan instead.

But last November the fate of the run-down plant, deprived of all but the most essential repair and maintenance work for five years, took a new turn. Ispat, a London-based private steel company founded and owned by an Indian business-man, Mr Lakshmi Mittal, and his wife, won a competitive tender that made Ispat 160 per cent owner of a new company, Isnat-Karmet

A rump company, Karmet Combinat, was left with responsibility for most past debts, many of which reflected fraudulent

trading by previous management.

Ispat was originally offered a manage ment contract, but it made clear that it would only assume responsibility for the plant if it were allowed to buy it ourright,

Investments should total \$500m over the next five years

and on a virtually debt-free basis. "Ispat refused to assume responsibility for around \$300m in unpaid electricity and other bills. But it did pay us for unpaid iron ore deliveries and some other essential suppliers," says Mr Mashkevich. "Ispat was lucky. It came when the gov-

ernment was desperate to find a solution for Karmet, but when it was clear that it was possible for foreigners to invest and do business here," he adds. Ispat agreed to pay around \$450m for Karmet's assets and a few selected debts.

The net purchase price was under \$270m. But it also undertook to invest another he next five vear: pollution and raise efficiency. Psychologically, Ispat's most important move was to agree to pay around \$9m in back pay to the 30,000 workers whom the

cash-strapped former management had left without wages for up to six months. Since buying Karmet, Ispat has also bought the 435mw coal-fired power plant that supplies heat and power to the steel complex and to all the homes and offices

It looked at Karmet but preferred to invest in Timirtau. It is now renovating the in a new aluminium refinery at Pavlodar power plant before closing down the power plant before closing down the smaller, but inefficient and highly polluting, 150mw plant inside Karmet itself.

To secure cheap coal supplies to both the power plant and the steel complex, ispat also paid \$193m for 15 coal mines in the nearby Karaganda coal field, whose existence originally attracted Ispat to Kazakhstan. This deal ensures access to both steam coal and, above all, to more than 1hm tons of high quality coking coal (see

With domestic demand virtually non-existent, at present production for export is the key to raising output to full fun-ton capacity within the next three years. Priority investments are a new \$43m pickling plant ordered from Mannesmann of Germany and the replacement of coking ovens with more efficient and less polluting

Looking further shead, Ispat sees the greatest profit potential in producing for a local market that presently does not exist. Under the Soviet system, Kazakhstan produced steel and other basic industrial products and delivered them to manufacturing plants in Russia and other more industrialised republics. "But," says Mr Malay Mukherjee, Ispat-Karmet's general manager, "this plant produces tin plate as well as hot and cold rolled steel products, making it ideal for local consumer goods

industries such as food processing." Although these industries are few and between in the area at present, Mr Mukherjee believes it is only a question of time before they develop. "The fertile black earth zone begins 50kms north of here. There is great potential for meat, fruit and vegetable processing," he says.

"The Asian Development Bank is interested in financing such projects. We will also offer incentives for foreign and local from our construction steel and fed with rolled products for case and packaging."

By eliminating the heavy costs of transporting steel thousands of miles to export markets, Ispat-Karmet hopes to make the profits needed to re-generate Karmet and to become a catalyst for wider industrial restructuring - creating new jobs, new consumer products and a big new captive market for Karmet.

■ Coal: by Anthony Robinson Security for 100 years

By buying 15 mines, Ispat-Karmet is providing for its long-term future

It was not the prospect of owning Karmet, one of the world's largest steel mills, that first attracted the London-based private company, Ispat, to Kazakhstan, but the existence of one of the world's largest

deposits of good quality coking coal.
"Iron ore deposits are being discovered around the world every day. The world is awash in iron. But coking coal is hard to find and becoming increasingly expensive. It was the search for coal which brought us to Karaganda," Mr Malay Mukherjee says.

Mr Mukherjee, a Bengali from Calcutta who was the former manager of Ispat's Mexican steel mill, is now in overall charge of Ispat-Karmet, the coal mines that supply it and the heat and power station that feeds both the steel plant and the town of Timirtan.

It was while checking out the 21 coal mines of the Karaganda Coal Combine last autumn that Mr Johannes Sittard, who scours the world for Ispat checking out potential acquisitions, was asked by the Kazakh government to cast his eye over the troubled Karmet steel combine 15kms away. Acquiring the steel complex then made it doubly important for Ispat to buy the coal mines that were the original target.

"Acquiring the coal mines makes a big difference to the overall economics of the steel plant. We will now invest what is needed to raise mining productivity and reduce costs," Mr Mukherjee says. Proximity to the Karaganda coal mines

was the main reason why Karmet was built in the first place. When working at full capacity the blast furnaces and power and 2.5m tons of steam coal a year.

Over the first six months of this year, the Karaganda Coal complex produced various grades of coal at an annual rate of around 15m tons, and employed 40,000 miners and support workers. It is one of the richest coal fields in Kazakhstan. At Ekibastuz, 400kms to the north east, lies another shallow deposit whose vast opencast mines feed local power stations and

eastern Kazakhstan and southern Siberia. Most of Karaganda's coal output is con-

cement, engineering and military facto-ries in the area. The rest is taken by the energy and heating plants that provide power and central heating to the 400,000 inhabitants of the city of Karaganda and the 100,000 residents of Timirtau. Ispat's takeover of Karmet broke the

sumed by Karmet and a few other large

circle of non-payment that threatened the imminent collapse of the entire local economy. It first agreed to pay the wages backlog of the Karmet workers and then extended a lifeline to the mines - by paying cash for coal - and to the equally sh-starved railway system. Ispat's track record at Karmet helped

consummate the acquisition of its original target, the Karagenda coal mines. The

'The unions know workers have an assured market for coal

company only really wanted seven mines. But in the end it agreed to take on 15 of the 21 mines whose output was directly relevant to Ispat-Karmet's needs. Severa of the other, mainly open-cast mines, will probably be closed. Ispat made an initial investment of

\$193m in order to acquire its 15 mines, which currently employ 29,000 people. More importantly, it has also acquired access to a deposit of high quality coking coal that is bigger than 1ba tons -'enough to last well over a century," as Mr Mukherjee puts it.

A technical survey undertaken by a UKof work on the privatisation of British Coal, found that the mines had been well designed. But they had been starved of maintenance and needed new coal-cutting equipment and other machin

"We did not take any of the open cast mines, which remain in state hands. But the underground mines are relatively shallow - between 100 and 500 metres deep - and with thick seems of between 3 to 15 metres. They are ideal for modern long-wall mining methods," Mr Mukherice says.

The scope for higher productivity and lower costs is substantial and will lead to job losses, both in the mines and the steel complex. But Ispat's willingness to give backpay to the 75 per cent of mine workers who had gone without wages for up to six months under the previous state owners, has given them credibility with the unions and the workers.

"The mining union knows that with Ispat as owners, the workers have an assured market for their coal. The union's top priority is to secure as many jobs as sible. It also wants wage indexation to protect itself against the inflation that ravaged incomes even when they were paid," Mr Mukherjee says.

Until now Ispat has relied on natural wastage and incentives for early retirement to reduce payrolls and has not resorted to compulsory redundancies. But with plans to invest more than \$200m in the coal mines over the next few years many jobs will inevitably go.

"We will not be able to continue to employ so many people directly. But by investing in new coke ovens at Karmet, for example, we will produce coal-based chemical by-products worth around \$25m a year. We could just ship the chemicals out and sell on world markets. What we would rather do is provide incentives for other investors to come here and set up consumer-orientated plastic and other plants around the Ispat-Karmet complex, Mr Mukherjee explains.

In this way redundant miners, steelworkers and their wives will be able to get new jobs in new industries. Meanwhile, wage and salary levels will rise for the fewer but more productive steelworkers and miners in the renascent mines

Before now, the people of Timirtan have had only one employment option in the Soviet-style company town. If Karmet's broader plan to attract other investors goes well it could underpin the development of a more democratic society where people have greater choice and where workers and their families are no longer dependent on a single employer - the

Gold: by Sander Thoenes

Perils of the yellow prize

ventures, the rewards of gold exploration may be a long time coming To take a look at the map on the right is to take a look at

Why, for western

of Kazakhstan. "This is one of the best endowed regions in the world," says Mr Kenneth Arne, general manager of the gold mining company, Kazakhstan Minerals

The country's president, Mr Nursultan Nazarbayev, says foreign investments could help Kazakhstan boost annual gold production from 14 tons in 1994 to at least 42 tons before the end of the century. Mr Serikbek Daukeyev, the geology minister, recently said the country's gold reserves were worth \$52.3bn.

Since the total size of deposits is kept secret, Mr Daukeyev's claim is hard to verify but it forms part of the simple logic that has drawn dozens of gold producers to Kazakhstan. "Big is big." says Mr Robert Friedland, whose group of investors has pledged more than \$500m to the country's two largest gold mines. Bakyrchik and Vasilkovskoye. "We'll all be dead before we run out

Mr Friedland leads a consortium of three Western gold companies, Teck, First Dynasty and Bakyrchik Gold, which last week signed a contract for an 80 per cent stake in the Vasilkovskoye gold ore deposit. The mine, in northern Kazakhstan, has proven extractable reserves of 6.5m troy ounce, making it the fourth largest undeveloped site

The world.
The group pledged to invest
\$360m and offered an \$35m bonus and undisclosed royal-

ties, in return for its stake. Many leading gold companies have been sceptical about the hidding since last year when the Kazakh government snatched away the licence from one venture, cancelled the tender and then handed it



directly to Placer Dome of Canada. Placer Dome backed out after it had paid \$35m up front, forcing the government to start

from scratch. The tender was a showcase designed to repair Kazakhstan's image among Western banks and goldminers after the Placer Dome flasco. "We are learning from our mistakes," says Mr Marat Bitimbayev,

deputy minister for geology. Companies may find other problems once bids succeed. Of the state's gold ventures only Bakyrchik is currently produc ing gold, and even that exploration is making a loss. Since taking over Bakyrchik,

Mr Friedland has dropped the venture's innovative but inefficient leaching technology in favour of more traditional roasting equipment from Lurgi, a division of Metallgesellschaft in Germany.

Production reached its initial goal of 29,000oz recently, Mr

Friedland says, adding that the target for late 1998 is 250,000oz. There hasn't really been a success story here yet and there's a couple of people who have shot themselves squarely in the foot. You have to be a whole lot more patient here."

says Mr Arne of Kazakhstan

Minerals Corp. "The difficult thing is the remoteness of the location. It's hard to attract Western staff. And it still takes a long time to negotiate. This country does not have the regulations we're used to in the West. The thinking here is still very much command and control." The president has decreed

where most of the confusion arises: "The law does not say the gold has to be re-imported," notes Mr Lesser. Another concern is a draft law on taxation of mineral resources, which establishes that gold can be freely exported, but with only one

exports of refined gold, but the

only operating refinery charges

several times the Western rate

because it has been unable to

cut costs by hedging the gold it

royalties, bonuses and excess profit taxation. Some gold producers feel such a law would render their projects unprofitable because it treats gold and oil ventures equally, without producing mine to set a preceaccounting for the additional dent, many ventures are still expenses incurred by gold unsure how this edict will exploration and extrac The draft is still being debated work in practice. "The law is deliberately vague," says Mr Alexander Lesser, a lawyer for in the government, however, and some lobbyists are confi-Squire, Sanders & Dempsey in dent it will be rewritten. Almaty. Legislation allows for

"This is not a tax haven says Mr Arne. "It's a trade-off. You've got good geology. But you can't come here and expect to get away without paying taxes. It's pretty comparable to what we'd expect in the West."

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III Infrastructure: by Anthony Robinson

n the right tracks

Connections are good, but funding could be better

Seen from Europe, indeed seen from most places, Kazakhstan is a very long way away. It is also very, very big. But its location at the very heart of the Eurasian landmass makes this independent former Soviet republic a convenient place from which to supply basic industrial, food and other products to the fast-growing markets of northern China to the east as well as to the middle east and Turkey - which seen from Kazakhstan lie to the west through Iran.

Kazakhstan is also a supplier to Russia, and to the industrial cities of southern Siberia just across its northern border.

Half the size of the US and bigger than the whole of western Europe, Kazakhstan has been endowed with fertile rolling prairies and world-class deposits of oil, gas, coal, and ferrous and non-ferrous metals. Totally landlocked, it is dependent on the goodwill of its neighbours for access to the wider world.

For such a country, railways are crucial. In Soviet times Kazakhstan was fully integrated into the Soviet rail network. All the main Eurasian

and Trans-Asian, east-west ing to export up to 3.5m tons of lines run across its territory. Of the 14,000kms of main line some 3.600kms are electrified and mostly double track.

In addition, significant sec-

tors of the economy are now

jects, the need for an efficient

road, rail, air and pipeline

infrastructure is of growing

Compared with many other

countries, Kazakhstan is not

badly off. "We were pleasantly

surprised: The infrastructure

here is a lot better than the

Altopiano of Peru or the Aus-

tralian outback where we have

equivalent operations," says

Mr Kenneth Arne of Kazminco,

which has ambitious gold min-

ing projects just starting up in

But off the few main roads

that have all-weather tarmac

surfaces, most of the country is

linked by rudimentary mud-

tracks; state-owned Kazakh-

stan Airlines, with its ancient

gas-guzzling Soviet planes is

virtually bankrupt and every

part of the infrastructure needs

heavy investment in mainte-

nance and modernisation after

years of enforced neglect. The

necessary capital may only be

raised with the urgency

required if "strategic" trans-

port industries are opened up

importance.

The most beavily used line is that running from Almaty across the endless steppe, through the coalfields and on to Petropavlosk in industrialised southern Siberia. Here it interconnects with the Trans-Siberian railway.

Last year, the railways carried just under 180m tons of freight, less than half the Soviet-era load when traffic was more than a million tons a day. Since the collapse of the Soviet Union, Russia has either not paid the Kazakh railways for transit or only paid through barter. This has left many wagone and locomotive idles and meant no money for new rolling stock or maintenance.

This year, however, has seen a recovery as several big metallurgical plants and coal mines have been privatised and re-invigorated. Not only are volumes up but the railways actually get paid cash, sometimes even in advance, by the new capitalist owners.

With a bumper harvest in prospect and international cereals traders active, the railways are also hauling more fertiliser this year and are preparOil: by Sander Thoenes

Exploiting the fields of dreams

The construction of a new pipeline should help companies tap the under private ownership and as massive foreign investment starts to flow into world-scale oil, gas, gold and other procountry's vast reserves

When a well at the Tengiz oil field in western Karakhstan caught fire in 1985, the flames raged for 444 days and consumed more than 1m tons of oil before workers managed to close the well. Throughout the blaze, pressure meters at the other wells of the field barely

"The field is so big it was almost like taking a drop out of a swimming pool," says Mr Nick Zana, director general of Tengischevroil, the Chevron and Mobil venture that has been producing oil at the field since 1993.

Tengiz, located onshore in the north east Caspian sea area is estimated to have extractable reserves of at least 800m tons of oil, making it one of the world's largest deposits. "This is a oncein-a-lifetime opportunity," says Mr Zana. "How often can an oil man say T run a super giant of field?"

It is stories like these that have drawn most of the world's other leading oil companies to Kazakhstan, desnite the risks of operating in this barren and economically depressed country.

For the first few years of Kazakhstan's independence, many of the larger oil companies kept a low profile, mainly because there was no reliable export route. The only existing pipelines to Western markets run through Russia, which has been unable, and many say

In April this year, however, Russia.

Kazakhstan and Omah ended years of haggling by signing an accord on the construction of the Caspian Pipeline, from western Kazakhstan to the Russian port of Novorossiisk. The three countries agreed to tavite

private investors to take a 50 per cent stake, Chevron, Mobil, the Russian of companies Lukoil and Rosnett, British Gas, Agip of Italy, Oryx of the US and the Kazakh state company, Munaygaz, all pledged to invest and hope to sign a contract later this year. The pipeline, to be completed in the first decade of the next century, should be able to pump 60m tons a year, three times the country's current annual production.

A flurry of deals followed the agreement. Within a week after the Caspian Pipeline Consortium deal was signed, Mobil announced it would purchase half of the government stake in Teogizchevroil for \$1.1bn. Royal Dutch Shell foined in on the Caspian Pipeline Consorthum a few weeks later by pledging to finance Rospett's share. Vitol, the Dutch oil trader, in June bought a 90 per cent stake in the country's largest oil refinery at Chimkent, in the far south Further north, Samson, a US oil company, is negotiating the purchase of a majority stake in the Yuzhneftegaz off production association, the refinery's main supplier.

On August 1, Exxon and Texaco are expected to hid for the large Aktyubinsk production association, which has rights to the Zhanazhol oil field that is Amoco hopes to finalise negotiations later this year on a sizeable exploration project just south of Tengiz. These oil contracts alone could triple foreign investment in Kazakhstan, estimated at roughly \$1bn in 1995.

"You go where the oil is," says Mr Carl Burnett, president of Mobil Oil Razakbstan. "Tengiz will be very expensive to develop - deep, high pres-sure, sour. But there's a lot of oil." Later this summer, the RCS consor-tium of seven Western oil companies and one Kazakh concern will finish col-

lection of seismic data on the 100,000 square kilometres of the Kazakh shelf, the largest exploration in the world. Some Kazakh officials have predicted that the hydrocarbon reserves could be four times as large as Tengiz.

The KCS consortium members, Agip, British Gas, Mobil, Total, Shell and an

alliance of British Petroleum and Statoil, have been promised 12 blocks on the field. But negotiations on a production sharing agreement have been well behind schedule. The members want minimal exposure in the first few years and early returns on their exploration costs, but the government is intent on drawing in as much Western investment as early as possible.

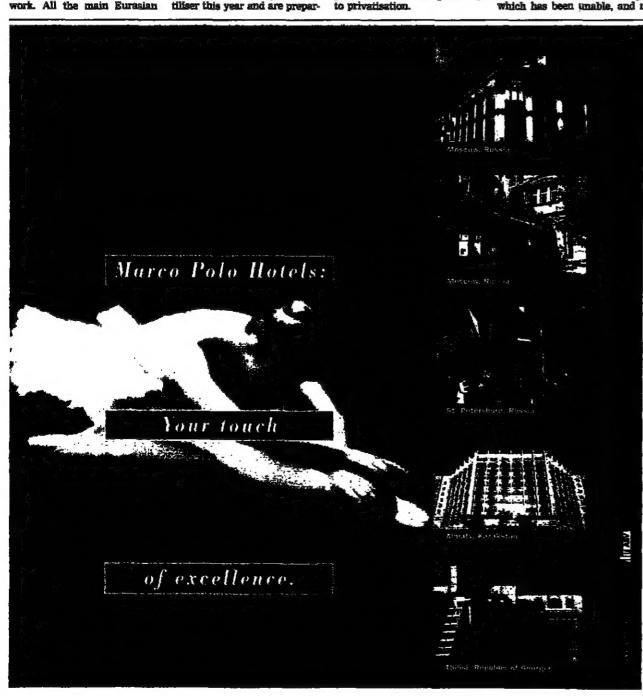
The Caspian Pipeline will not be ready for at least another three years, however, and until then oil production and revenues, vital to economic recovery, are unlikely to rise sharply. The lack of an export route and a drop in domestic consumption in recent years has actually forced Kazakhstan to lower . over 20m tons last year.

Tengizchevroil hopes to double production by the end of this year and reach a capacity of 8.5m tons by the end of 1998, but Mr Zana says his venture intends to limit additional investments to whatever revenues can finance. This means he has had to cut costs, consider a hiring freeze and develop alternative marketing strategies. He now sends oil by train to Finland, markets it inside the former Soviet Union and ships it up the Volga river, down the Don and into the Black Sea to the West.

The Kazakh government has been looking for alternative routes as well. The president, Mr Nursultan Nazarbayev, in May agreed with his Iranian counterpart to ship 2m tons a year, and later 6m tons, to northern fran. in return, Iran will hand over oil of equivalent value to customers of Kazakhstan at a port on the Persian Gulf. When the governments agree on the details and the ports have been upgraded to handle the loads, a mix of Tengiz and other crude oil will be shipped to Iran from the port of Aktau, officials say.

The US government enforces a tough boycott against Iran but has not objected to the arrangement, provided US companies are not involved.

Mr Zana says the Kazakh govern has the right to purchase its share of oil production from Tengiz for shipments to Iran but insists Tengizchevroil has no role in the deal. No matter which routes are chosen, he is confident. The oil will flow out of Kazakhstan and wealth will come to Kazakhstan."



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